
CITY OF TOLAR

ANNUAL FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED SEPTEMBER 30, 2017

CITY OF TOLAR

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Tolar, 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, and each major fund, of the City of Tolar, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the City of Tolar, Texas, 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, and pension funding schedules on pages 3 through 9 and pages 38 through 41 be presented to supplement the basic financial statements,. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary information – proprietary fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2018, on our consideration of the City of Tolar, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 of Tolar, Texas' internal control over financial reporting and compliance.

MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
February 2, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Tolar's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on September 30, 2017. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net position increased \$71,716 from prior year. Net Position of our business-type activities increased \$65,781 (5.2%), while net position of our governmental activities increased \$5,935 (or less than 1.0%).
- During the year, the City's expenses were \$5,935 less than the \$427,125 generated in taxes and other revenues for governmental programs.
- In the City's business-type activities, revenues were \$477,681, including transfers of \$10,531, while expenses were \$411,900.
- The total cost of the City's programs was \$825,484.
- The general fund reported fund balance of \$170,779.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information that includes all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities* which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, and public service. Business-type activities include water and sewer activities.

The City's financial reporting entity does not include the funds for which the City is not accountable (component units). These organizations, such as the Tolar Economic Development Corporation are reported separately from the primary government though included in the City's overall reporting entity. This entity operates more independently or provides services directly to the citizens though the City remains accountable for their activities.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The City has two kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

A budgetary comparison schedule for the general fund can be found in required supplementary information. This statement demonstrates compliance with the City's adopted and final revised budget. In addition, a budgetary comparison schedule for the proprietary fund can be found in other supplementary information.

Proprietary funds are required in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as the water and sewer. Internal service funds provide services and charge fees to customers within the city organization such as equipment services (repair and maintenance of City vehicles) and the print shop (mail and printing services for City departments). The City has no internal service funds.

Proprietary fund statements and statements for discretely presented component units (reporting is similar to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements, but with more detail for major enterprise funds.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, other supplementary information, and other information required by Government Accounting Office (GAO).

Financial Analysis of the City as a Whole

Net Position. As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

The City's net position at fiscal year-end is \$2,489,925. This is a \$71,716 increase over last year's net position of \$2,418,209. The following Table A-1 provides a summary of the City's net position at September 30, 2017 and 2016.

Table A-1
City of Tolar's Net Position

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	207,201	176,876	215,566	96,244	422,767	273,120
Capital and Non-Current Assets	1,020,686	1,050,383	1,255,397	1,313,964	2,276,083	2,364,347
Total Assets	1,227,887	1,227,259	1,470,963	1,410,208	2,698,850	2,637,467
Deferred Outflows of Resources	1,962	18,752	11,121	28,521	13,083	47,273
Current Liabilities	28,070	34,988	51,472	42,853	79,542	77,841
Long Term Liabilities	45,550	59,838	96,618	126,346	142,168	186,184
Total Liabilities	73,620	94,826	148,090	169,199	221,710	264,025
Deferred Inflows of Resources	103	994	195	1,512	298	2,506
Net Position						
Net investment in capital assets	979,436	989,033	1,186,082	1,212,056	2,165,518	2,201,089
Restricted	20,270	20,270			20,270	20,270
Unrestricted	156,420	140,888	147,717	55,962	304,137	196,850
Total Net Position	1,156,126	1,150,191	1,333,799	1,268,018	2,489,925	2,418,209

Net Position in the City's governmental activities increased less than 1.0%. Net Position increased 5.2% to \$1,333,799 in business-type activities of the government. \$2,165,518 of total net position is invested in capital assets (distribution and collection system, equipment, etc) and \$20,270 is restricted for debt service. Consequently, unrestricted net position showed a \$304,137 balance at the end of this year.

Changes in Net Position. The City's total revenues were \$897,200, including transfers. Over half (54%) of the City's revenue comes from fees charged for services, and 38 cents of every dollar raised comes from some type of tax. (See Figure A-1)

The total cost of all programs and services was \$825,484. The City's expenses cover a range of services, with half (50%) related to business-type activities. (See Figure A-2).

Figure A-1
City Sources of Revenue for Fiscal Year 2017

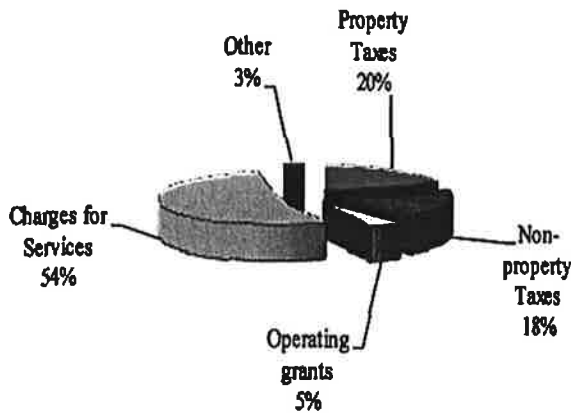
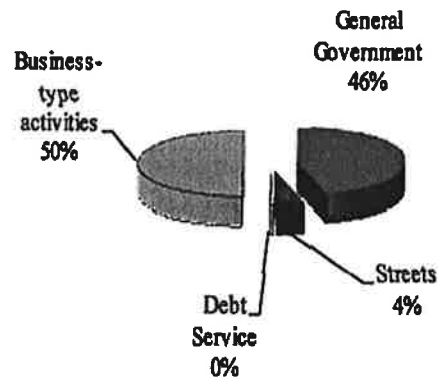


Figure A-2
City Functional Expenses for Fiscal Year 2017



Governmental Activities

Revenues for the City's governmental activities were \$427,125, while total expenses, including transfers were \$421,190. The City is increasing its tax base by bringing in new businesses and homes, and the increasing property tax rate should increase property tax revenue. The increase of new business adds revenue through two avenues; 1) property tax, and 2) sales tax.

Table A-2
Changes in City of Tolar, Texas' Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
<u>Program Revenues</u>						
Charges for Services	\$ 61,176	\$ 63,117	\$ 424,676	\$ 324,162	\$ 485,852	\$ 387,279
Operating Grants and Contributions			41,900	46,061	41,900	46,061
<u>General Revenues</u>						
Sales tax	135,532	146,572			135,532	146,572
Property tax	183,063	167,576			183,063	167,576
Right of way fees	27,486	26,924			27,486	26,924
Investment Earnings	989	540	574	115	1,563	655
Other income	18,879	5,434			18,879	5,434
Total Revenues	427,125	410,163	467,150	370,338	894,275	780,501
Expenses						
General government	377,573	312,645			377,573	312,645
Police						
Streets	32,902	28,166			32,902	28,166
Debt service	3,109	4,939			3,109	4,939
Water utilities			411,900	408,897	411,900	408,897
Total Expenses	413,584	345,750	411,900	408,897	825,484	754,647

Excess (deficiency) before transfers	13,541	64,413	55,250	(38,559)	68,791	25,854
Transfers	(7,606)	11,317	10,531	13,312	2,925	24,629
Increase (decrease) in net position	\$ <u>5,935</u>	\$ <u>75,730</u>	\$ <u>65,781</u>	\$ <u>(25,247)</u>	\$ <u>71,716</u>	\$ <u>50,483</u>

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. Governmental funds reported ending fund balances of \$191,049.

The total ending fund balances of governmental funds show an increase of \$33,939 over the prior year. This increase is primarily the result of an increase in property tax.

Major Governmental Funds

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The fund balance of the General Fund increased to \$33,939.

Proprietary Funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Major Proprietary Funds

The City's major proprietary fund is the Water Fund. Total net position at the end of the year was \$1,333,799. The Water Fund had an increase in net position of \$65,781.

General Fund Budgetary Highlights

The General Fund Budget for fiscal year 2017 was approximately \$353,000. This was an increase of approximately \$42,000 from the previous year's actual expenditures. In the current year, the City budgeted for the payments to the Economic Development Corporation, increases in insurance, election, professional services, software, and telephone, and decreases in building inspector, capital outlay, miscellaneous, office supplies, printing & copies, repair & maintenance, reference books, technical support, travel, and street expenses.

The City amended the budget several times during the fiscal year. The City's budget decreased slightly. Several line items were adjusted to better reflect the actual expenditures. Actual expenditures were \$5,778 over budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of September 30, 2017, was \$1,020,686 and \$1,255,397, respectively. The total change in net capital assets was a decrease of 2.8% in the governmental and a decrease of 4.5% for business-type activities. The overall decrease was 3.7% for the City as a whole. Major capital asset additions during the current fiscal year included the purchase of a mower, street improvements and construction in progress on the lift station. The project is approximately 15% complete. See Table A-3 for additional information about changes in capital assets during the fiscal year.

**City of Tolar
City's Capital Assets**

	Governmental Activities		Business-type Activities		Total	
	<u>\$ 2017</u>	<u>\$ 2016</u>	<u>\$ 2017</u>	<u>\$ 2016</u>	<u>\$ 2017</u>	<u>\$ 2016</u>
Land	58,837	58,837	41,605	41,605	100,442	100,442
Buildings and improvements	734,642	734,642			734,642	734,642
Distribution and collection system			2,630,177	2,630,177	2,630,177	2,630,177
Furniture and equipment	113,341	135,252	210,867	213,767	324,208	349,019
Infrastructure	478,498	478,498			478,498	478,498
Construction in progress			41,900		41,900	
Total at historical cost	<u>1,385,318</u>	<u>1,407,229</u>	<u>2,924,549</u>	<u>2,885,549</u>	<u>4,309,867</u>	<u>4,292,778</u>
Total accumulated depreciation	<u>430,936</u>	<u>414,650</u>	<u>1,669,152</u>	<u>1,571,585</u>	<u>2,100,088</u>	<u>1,986,235</u>
Net capital assets	<u>\$ 954,382</u>	<u>\$ 992,579</u>	<u>\$ 1,255,397</u>	<u>\$ 1,313,964</u>	<u>\$ 2,209,779</u>	<u>\$ 2,306,543</u>

Long-term Debt

At year-end, the City had \$105,000 in bonds payable and \$5,565 in notes payable. See Table A-4.

**Table A-4
City's Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Note payable	\$ 5,565	\$ 8,258	\$ 5,565	\$ 8,258	\$ 5,565	\$ 8,258
Bonds payable	41,250	61,350	63,750	93,650	105,000	155,000
	<u>\$ 41,250</u>	<u>\$ 61,350</u>	<u>\$ 69,315</u>	<u>\$ 101,908</u>	<u>\$ 110,565</u>	<u>\$ 163,258</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City is working on bringing residents into the City of Tolar by adding residential areas. By bringing in new residents, revenue of the City is increased through sales tax revenues and property tax revenues.

- Appraised property value used for the 2017-2018 budget preparation increased approximately \$4.0 million, or 10.5% from the previous year.
- Water rates remained consistent with prior year. Sewer sales are expected to remain substantially the same for the fiscal year 2018. The City budgeted for increases in street repair and salary and related expenses.

These indicators were taken into account when adopting the general fund and water fund budgets for 2018.

The General Funds expenditures are budgeted at \$389,498, which is an increase of approximately \$30,000 from prior year expenditures. The City has added no major new programs or initiative to the 2018 budget. If these estimates are realized, the City's budgetary general fund fund balance is expected to decrease by \$2,104.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Tolar's Mayor, 8712 W. Hwy 377, Tolar, Texas 76476.

BASIC FINANCIAL STATEMENTS

CITY OF TOLAR, TEXAS

STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 177,046	\$ 143,433	\$ 320,479	98,443
Receivables:				
Property tax	9,636		9,636	
Allowance for uncollectible tax	(1,454)		(1,454)	
Accounts receivables		51,650	51,650	
Grant		10,896	10,896	
Right of way	4,968		4,968	
Sales tax	25,508		25,508	
Due to/from other funds	(8,503)		(8,503)	8,503
Inventory		9,587	9,587	
Total current assets	207,201	215,566	422,767	106,946
Non-current Assets				
Capital assets:				
Land	58,837	41,605	100,442	
Construction in progress		41,900	41,900	
Buildings and improvements	673,561		673,561	
Distribution and collection system		1,138,563	1,138,563	
Furniture and equipment	14,703	33,329	48,032	
Infrastructure	273,585		273,585	
Total non-current assets	1,020,686	1,255,397	2,276,083	
Total Assets	1,227,887	1,470,963	2,698,850	106,946
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to TMRS	1,962	11,121	13,083	
Total Deferred Outflows of Resources	1,962	11,121	13,083	

The accompanying notes are an integral part of this statement.

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
Current Liabilities				
Accounts payable	3,574	13,646	17,220	
Sales tax payable	776		776	
Accrued wages payable	3,620	5,110	8,730	
Note payable - current		2,816	2,816	
Bonds payable - current	20,100	29,900	50,000	
Total current liabilities	28,070	51,472	79,542	-
Non-current Liabilities				
Utility deposits		30,617	30,617	
Accrued vacation	6,324	1,908	8,232	
Net pension liability	18,076	27,494	45,570	
Note payable - non current		2,749	2,749	
Bonds payable - non current	21,150	33,850	55,000	
Total non-current liabilities	45,550	96,618	142,168	-
Total Liabilities	73,620	148,090	221,710	-
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to TMRS	103	195	298	
Total Deferred Inflows of Resources	103	195	298	
NET POSITION				
Net investment in capital assets	979,436	1,186,082	2,165,518	
Restricted	20,270		20,270	
Unrestricted	156,420	147,717	304,137	106,945
Total Net Position	\$ 1,156,126	\$ 1,333,799	\$ 2,489,925	\$ 106,945

CITY OF TOLAR, TEXAS

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 377,573	\$ 61,176	\$
Public service			
Streets	32,902		
Debt service	3,109		
Total governmental activities	<u>413,584</u>	<u>61,176</u>	
Business-type Activities:			
Water utilities	<u>411,900</u>	<u>424,676</u>	<u>41,900</u>
Total business-type activities	<u>411,900</u>	<u>424,676</u>	<u>41,900</u>
Total Primary Government	<u>\$ 825,484</u>	<u>\$ 485,852</u>	<u>\$ 41,900</u>
Component Unit			
Economic Development Corporation	\$		
	<u>\$</u>	<u>\$</u>	<u>\$</u>
General Revenues:			
Taxes:			
Sales tax			
Property tax			
Right of way			
Investment Earnings			
Contribution			
Miscellaneous Income			
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

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
\$ (316,397)	\$	\$ (316,397)	
(32,902)		(32,902)	
(3,109)		(3,109)	
<u>(352,408)</u>		<u>(352,408)</u>	
	54,676	54,676	
	54,676	54,676	
<u>(352,408)</u>	<u>54,676</u>	<u>(297,732)</u>	
135,532		135,532	45,177
183,063		183,063	
27,486		27,486	
989	574	1,563	364
11,040		11,040	
7,839		7,839	
(7,606)	10,531	2,925	(2,925)
<u>358,343</u>	<u>11,105</u>	<u>369,448</u>	<u>42,616</u>
5,935	65,781	71,716	42,616
<u>1,150,191</u>	<u>1,268,018</u>	<u>2,418,209</u>	<u>64,329</u>
\$ <u>1,156,126</u>	\$ <u>1,333,799</u>	\$ <u>2,489,925</u>	\$ <u>106,945</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF TOLAR, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Current:			
Cash and cash equivalents	\$ 177,046	\$	\$ 177,046
Receivables:			
Property tax	7,890	1,746	9,636
Allowance for uncollectible tax	(1,269)	(185)	(1,454)
Right of way	4,968		4,968
Sales tax	25,508		25,508
Due from other funds		20,270	20,270
Total Assets	\$ <u>214,143</u>	\$ <u>21,831</u>	\$ <u>235,974</u>
LIABILITIES:			
Current Liabilities			
Accounts payable	\$ 3,574	\$	\$ 3,574
Sales tax payable	776		776
Accrued liabilities	3,620		3,620
Due to other funds	20,270		20,270
Due to EDC	8,503		8,503
Total Liabilities	<u>36,743</u>		<u>36,743</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue - property tax	<u>6,621</u>	<u>1,561</u>	<u>8,182</u>
Total Deferred Inflows of Resources	<u>6,621</u>	<u>1,561</u>	<u>8,182</u>
FUND BALANCE:			
Restricted:			
Debt service		20,270	20,270
Unassigned	<u>170,779</u>		<u>170,779</u>
Total Fund Balance	<u>170,779</u>	<u>20,270</u>	<u>191,049</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ <u>214,143</u>	\$ <u>21,831</u>	\$ <u>235,974</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

Total fund balances - governmental funds balance sheet	\$ 191,049
Amounts reported for governmental activities in the statement of net position (SNP) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,465,033 and the accumulated depreciation was \$414,650.	1,050,383
Current year capital outlays are expenditures in the fund financial statements, but are shown as increases to capital assets in the statement of net position.	19,440
Long-term liabilities at the beginning of the year of \$61,350 are not due and payable in the current period, and therefore are not reported as liabilities in the funds.	(61,350)
Long-term debt principal payments are expenditures in the fund financial statements but they should be shown as reductions in long-term debt in the government-wide financial statements.	20,100
Included in the noncurrent liabilities is the recognition of the city's net pension liability required by GASB 68 in the amount of \$18,076, a deferred resource inflow in the amount of \$103, and a deferred resource outflow in the amount of \$1,964. This resulted in a decrease in net position of \$16,215.	(16,217)
Vacation accrual is recorded in the statement of net position. The balance decreases net position	(6,324)
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.	8,182
Depreciation expense decreases net position in SNP.	<u>(49,137)</u>
Net position of governmental activities - statement of net position	\$ <u><u>1,156,126</u></u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2017**

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES			
Sales tax	\$ 135,532	\$	\$ 135,532
Property tax	156,652	23,107	179,759
Right of way	27,486		27,486
License and permits	14,263		14,263
Garbage collection income	46,018		46,018
Fines and forfeitures	895		895
Investment income	989		989
Donations	11,040		11,040
Miscellaneous income	7,839		7,839
Total Revenues	<u>400,714</u>	<u>23,107</u>	<u>423,821</u>
EXPENDITURES			
Current:			
General government	337,709		337,709
Public service			
Streets	21,358		21,358
Debt service		23,209	23,209
Total Expenditures	<u>359,067</u>	<u>23,209</u>	<u>382,276</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>41,647</u>	<u>(102)</u>	<u>41,545</u>
Other Financing Uses			
Operating transfers out	<u>(7,708)</u>	102	<u>(7,606)</u>
Total Other Financing Uses	<u>(7,708)</u>	102	<u>(7,606)</u>
Net Change in Fund Balances	33,939	-	33,939
Fund Balance - Beginning	<u>136,840</u>	<u>20,270</u>	<u>157,110</u>
Fund Balance - Ending	\$ <u>170,779</u>	\$ <u>20,270</u>	\$ <u>191,049</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED SEPTEMBER 30, 2017

Total change in fund balances - total governmental funds	\$ 33,939
Amounts reported for governmental activities in the statement of activities (SOA) are different because:	
Depreciation expense decreases net position in SNP.	(49,137)
Current year capital outlays are expenditures in the fund financial statements, but are shown as increases to capital assets in the statement of net position.	19,440
Long-term debt principal payments are expenditures in the fund financial statements but they should be shown as reductions in long-term debt in the government-wide financial statements.	20,100
The implementation of GASB No. 68 required that certain expenditures be de-expended and recorded as deferred resource inflows. The contributions made after the measurement date of December 31, 2016, caused the change in the ending net position to increase in the amount of \$5,191. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling \$4,618. The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by \$1,770. The result of these changes is to decrease the change in net position by \$1,197.	(17,550)
Vacation accrual is recorded in the statement of net position. The balance decreases net position.	(4,161)
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.	3,304
Total change in net position of governmental activities - statement of activities	\$ 5,935

The accompanying notes are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF TOLAR, TEXAS

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	<u>Water</u>	<u>Total Proprietary Funds</u>
ASSETS		
Current:		
Cash and cash equivalents	\$ 143,433	\$ 143,433
Receivables, net	51,650	51,650
Grant receivable	10,896	10,896
Inventory	9,587	9,587
Total current	<u>215,566</u>	<u>215,566</u>
Non current:		
Land	41,605	41,605
Construction in progress	41,900	41,900
Distribution and collection system, net of depreciation	1,138,563	1,138,563
Equipment, net of depreciation	33,329	33,329
Total non current	<u>1,255,397</u>	<u>1,255,397</u>
TOTAL ASSETS	<u>1,470,963</u>	<u>1,470,963</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to TMRS	11,121	11,121
Total Deferred Outflows of Resources	<u>11,121</u>	<u>11,121</u>
LIABILITIES		
Current		
Accounts payable	13,646	13,646
Accrued expenses	5,110	5,110
Current portion - notes payable	2,816	2,816
Current portion - bonds payable	29,900	29,900
Total current	<u>51,472</u>	<u>51,472</u>
Non current:		
Utility deposits	30,617	30,617
Accrued vacation	1,908	1,908
Net pension liability	27,494	27,494
Notes payable	2,749	2,749
Bonds payable	33,850	33,850
Total non current	<u>96,618</u>	<u>96,618</u>
TOTAL LIABILITIES	<u>148,090</u>	<u>148,090</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to TMRS	195	195
Total Deferred Inflows of Resources	<u>195</u>	<u>195</u>
NET POSITION		
Net investment in capital assets	1,186,082	1,186,082
Unrestricted	<u>147,717</u>	<u>147,717</u>
TOTAL NET POSITION	\$ <u>1,333,799</u>	\$ <u>1,333,799</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
 YEAR ENDED SEPTEMBER 30, 2017

	<u>Water</u>	<u>Total Proprietary Funds</u>
Operating Revenues:		
Charges for services		
Water sales and fees	\$ 424,676	\$ 424,676
Total operating revenues	<u>424,676</u>	<u>424,676</u>
Operating Expenses:		
Water department	406,815	406,815
Total operating expenses	<u>406,815</u>	<u>406,815</u>
Net operating loss	<u>17,861</u>	<u>17,861</u>
Nonoperating revenues (expenses):		
Interest income	574	574
Grant income	41,900	41,900
Interest expense	(5,085)	(5,085)
Transfers in	10,531	10,531
Total nonoperating revenues (expenses)	<u>47,920</u>	<u>47,920</u>
Change in Net Position	65,781	65,781
Net Position - Beginning of Year	<u>1,268,018</u>	<u>1,268,018</u>
Net Position - End of Year	\$ <u><u>1,333,799</u></u>	\$ <u><u>1,333,799</u></u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2017

	Water	Total Enterprise Funds
<u>Cash flows from operating activities:</u>		
Cash received from customers	\$ 404,961	\$ 404,961
Cash payments for salary and related expenses	(187,025)	(187,025)
Cash payments to suppliers for goods and services	(108,847)	(108,847)
Net cash provided by operating activities	<u>109,089</u>	<u>109,089</u>
<u>Cash flows from noncapital financing activities:</u>		
Transfers from/to other funds	10,531	10,531
Pension funding	<u>18,596</u>	<u>18,596</u>
Net cash provided by noncapital financing activities	<u>29,127</u>	<u>29,127</u>
<u>Cash flows from capital and related financing activities:</u>		
Acquisition of property and equipment	(41,900)	(41,900)
Grant income	41,900	41,900
Interest paid on long term debt	(5,085)	(5,085)
Principal paid on capital leases	(2,693)	(2,693)
Principal paid on bonds and notes payable	<u>(29,900)</u>	<u>(29,900)</u>
Net cash used by capital and related financing activities	<u>(37,678)</u>	<u>(37,678)</u>
<u>Cash flows from investing activities</u>		
Interest income	<u>574</u>	<u>574</u>
Net cash provided from investing activities	<u>574</u>	<u>574</u>
Net Increase in Cash	101,112	101,112
Cash at Beginning of Year	42,321	42,321
Cash at End of Year:	<u>\$ 143,433</u>	<u>\$ 143,433</u>
<u>Supplementary Information</u>		
Interest paid	<u>\$ 5,085</u>	<u>\$ 5,085</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Operating income (loss)	\$ 17,861	\$ 17,861
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	100,467	100,467
(Increase) decrease in operating assets		
Receivables	(8,819)	(8,819)
Grant receivable	(10,896)	(10,896)
Inventory	1,505	1,505
Increase (decrease) in operating liabilities		
Accounts payable	9,882	9,882
Utility deposits	(81)	(81)
Accrued expenses	<u>(830)</u>	<u>(830)</u>
Net cash provided by operating activities	<u>\$ 109,089</u>	<u>\$ 119,985</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the City of Tolar, Texas (City) are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2017.

Financial Reporting Entity

The City is a Type A "general law" municipality and operates under a Mayor-Council form of government. The City provides the following services as authorized by its charter: public safety, public works, waterworks, and general government.

As required by the accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide statements to emphasize it is legally separate from the primary government.

Component Unit:

The Tolar Economic Development Corporation was incorporated in the State of Texas on November 18, 2013. The Corporation was organized exclusively for the purpose of benefiting and accomplishing public purposes of the City of Tolar, Texas, by promoting, assisting, and enhancing economic development activities for the city as provided under Section 4A of the Texas Development Corporation Act of 1979, and as authorized by the governing body of the City of Tolar, Texas. The Corporation receives its primary funding from a local sales tax approved by the voters. A Board of Directors manages the affairs of the Corporation. The fiscal year of the Corporation is the same as the City of Tolar, Texas.

Government-wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Fiduciary funds or component units that are fiduciary in nature are excluded from government-wide financial statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges and uses of the City's services; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund financial statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied, while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, right of way (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

Fund Types and Major Funds

Governmental funds

The City reports the following major governmental fund:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

In addition, the City reports the following as a fund, not considered to be a major fund:

Debt Service Fund – accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Proprietary funds

The City reports the following major enterprise fund:

Water Fund – reports for revenues and expenses associated with water services for the citizens of the City.

Assets, Liabilities, and Net Position or Equity

Cash and cash equivalents

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

Inventory

Inventory is valued at cost which approximates market, using the first-in-first-out (FIFO) method. The cost of inventory is recorded as expenditures when used (consumption method).

Capital assets, depreciation, and amortization

The City's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund's financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with costs of \$5,000 or more, as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in non-operating revenues and expenses in the proprietary fund statements and on general revenues in the government-wide statements.

Estimated useful lives for depreciable assets are as follows:

Water and sewer lines	40 years
Buildings	30 years
Equipment	10 years
Vehicles	5 years

Long-term debt

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities.

The governmental fund financial statements recognize the proceeds for debt as other financing sources of the current period. Issuance costs and debt payments are reported as expenditures.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Compensated absences

The City's policy permits employees to accumulate up to 128 hours of earned but unused vacation benefits. Upon termination of employment, employees will be paid for any unused vacation benefits that have been earned through the last day of work.

Deferred Outflows / Inflows of Resources

Deferred outflows of resources refer to the consumption of net assets that are applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets. The City has no amounts recorded as deferred outflows of resources in the governmental fund financial statements and \$13,083 and \$11,121 of deferred outflows related to TMRS in the government-wide financial statements and the proprietary fund statements, respectively.

Deferred inflows of resources refer to the acquisition of net assets that are applicable to a future reporting period. Deferred inflows of resources have a negative effect on net position, similar to liabilities. For the current period, the difference in delinquent taxes receivable and the associated allowance for uncollectible taxes of \$8,182 is considered a deferred inflow of resources in the governmental fund financial statements, while \$298 and \$195 of deferred inflows related to TMRS is considered deferred inflow of resources in the government-wide financial statements and the proprietary fund statements, respectively.

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.

Fund balance classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either a) not in spendable form or b) are legally or contractually required to be maintained intact. The City had \$0 classified as nonspendable at September 30, 2017.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the revenue note and are restricted through debt covenants. The City classified \$20,270 as restricted for debt service at September 30, 2017.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City classified \$0 as committed funds at September 30, 2017.

Assigned – This classification includes amounts that are constrained by the Council's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the Council delegating this responsibility to the City Secretary through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has no amounts classified as assigned at September 30, 2017.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The City would typically use restricted fund balances first, followed by committed fund balances, and then assigned fund balances, as appropriate opportunities arise, but reserves the right to selectively spend unassigned fund balances first to defer the use of these other classified funds.

Estimates

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

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budget policy and practice

The City Secretary submits an annual budget to the City Council in accordance with the requirements of the State of Texas. The budget is presented to the City Council for review, and public hearings are held to address citizen concerns. In September, the City Council adopts the annual fiscal year budgets for City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – continued

Basis of budgeting

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: general governmental services, public service – highways and streets, and debt service. Budget revisions at this level are subject to final review by the City Council.

Budgets for the governmental funds and proprietary fund operations are budgeted on the modified accrual basis of accounting. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the expenditure is incurred. The budget and actual financial statements are reported on this basis. Budgets for the proprietary fund are prepared on the accrual basis of accounting with the exception of depreciation expense and capital outlay. The budget and actual statements are reported on this basis. The budget for the general fund is presented as required supplementary information and the budget for the water fund is presented as supplementary information.

The City had negative budget variances in the following departments:

General Fund	
General services	\$ 14,870

NOTE 3: DEPOSITS AND INVESTMENTS

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

Cash Deposits

The City's cash deposits were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name at September 30, 2017.

Tolar Economic Development Corporation's cash deposits were entirely covered by FDIC insurance at September 30, 2017.

Investments

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

The ACT requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports an establishment of appropriate

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 3: DEPOSITS AND INVESTMENTS - continued

policies, the City adhered to the requirements of the ACT. Additionally, investment practices of the City were in accordance with local policies.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The City has demand deposits and money market accounts.

Investment Accounting Policy

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

Analysis of Specific Deposit and Investment Risks

- Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.
- Custodial Credit Risk – Deposits and investments are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the city's name. At September 30, 2017, the City's deposits were entirely collateralized and therefore, not exposed to custodial credit risk.
- Concentration of Credit Risk – the risk of loss attributed to the magnitude of a government's investment in a single issuer. At September 30, 2017, since the City has no investments, the City was not exposed to concentration of credit risk.
- Interest Rate Risk – the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of investments to less than one year. The City monitors the interest rates to minimize the exposure to interest rate risk.
- Foreign Currency Risk – the risk that exchange rates will adversely affect the fair value of an investment. As of September 30, 2017, the City was not exposed to foreign currency risk.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 4: RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE

Enterprise Receivables

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The City estimates an allowance for uncollectible accounts which represent the City's estimate of the amount of accounts receivable that are uncollectible based on collection history and individual specific circumstances. As of September 30, 2017, the City had recorded an allowance for uncollectible accounts of \$3,523. Receivables at September 30, 2017 are shown as follows:

Primary government:	
Water fund	\$ 51,650
Total primary government	\$ 51,650

Property Taxes Receivable, Unavailable Revenue and Property Tax Calendar

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

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

In the governmental fund financial statements, property tax receivables are recorded in the General Fund. At fiscal year-end, the receivables represent delinquent tax receivables. If the receivables are not paid within 60 days of year-end, they are recorded as unavailable revenue.

In the government-wide financial statements, property tax receivable and related revenue include all amounts due the City regardless of when cash is received. Over time, substantially all property taxes are collected.

NOTE 5: CAPITAL ASSETS

The following schedule provides a summary of changes in capital assets:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 58,837	\$	\$	58,837
Total capital assets not being depreciated	58,837			58,837

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 5: CAPITAL ASSETS - continued

Capital assets being depreciated				
Buildings	734,642			734,642
Equipment	135,252	10,940	32,851	113,341
Infrastructure	478,498			478,498
Total capital assets being depreciated	1,348,392	10,940	32,851	1,326,481
Less accumulated depreciation for:				
Buildings	(106,784)	(20,601)		(127,385)
Equipment	(118,917)	(12,572)	(32,851)	(98,638)
Infrastructure	(188,949)	(15,964)		(204,913)
Total accumulated depreciation	(414,650)	(49,137)	(32,851)	(430,936)
Total capital assets being depreciated, net	933,742	(38,197)		895,545
Governmental activities capital assets, net	992,579	(38,197)		954,382
Depreciation was charged to functions as follows:				
<u>Governmental activities:</u>				
General government	\$ 37,593			
Streets	11,544			
Total depreciation expense - governmental activities	\$ 49,137			
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	41,605			41,605
Construction in progress		41,900		41,900
Total capital assets not being depreciated	41,605	41,900		83,505
Capital assets being depreciated				
Distribution and collection system	2,630,177			2,630,177
Equipment	213,767		2,900	210,867
Total capital assets being depreciated	2,843,944		2,900	2,841,044
Less accumulated depreciation for:				
Distribution and collection system	(1,405,355)	(86,259)		(1,491,614)
Equipment	(166,230)	(14,208)	(2,900)	(177,538)
Total accumulated depreciation	(1,571,585)	(100,467)	(2,900)	(1,669,152)
Total capital assets being depreciated, net	1,272,359	(100,467)		1,171,892
Business-type activities, net	1,313,964	(58,567)		1,255,397
Total Primary Government	\$ 2,306,543	\$ (96,764)	\$	\$ 2,209,779

NOTE 6: LONG-TERM DEBT

Combination Tax and Revenue Certificate of Obligation, Series 2005

A series of bonds dated January 13, 2005, for \$425,000, was issued for the construction of public works and the purchase of materials, supplies, equipment, machinery, buildings, land and rights-of-way for authorized needs and purposes and for the payment of contractual obligations for professional services. The bonds were issued with interest rates ranging from 3.00% to 5.15% and mature annually through September 15, 2019, with interest due semiannually. The balance of these bonds at September 30, 2017 is as follows:

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 6: LONG-TERM DEBT – continued

Governmental activities	\$ 15,750
Business-type activities	<u>59,250</u>
	<u>\$ 75,000</u>

General Obligation Refunding Bonds, Series 2005

A series of bonds dated January 13, 2005, for \$415,000, was issued for the purpose of refunding the Series 2001 bonds in the amounts of \$285,000 and \$215,000, for a total of \$500,000. The bonds were issued with interest rates ranging from 3.00% to 5.15% and mature annually through September 15, 2019, with interest due semiannually. The balance of these bonds at September 30, 2017 is as follows:

Governmental activities	\$ 25,500
Business-type activities	<u>4,500</u>
	<u>\$ 30,000</u>

Note Payable to Heritage National Bank

On September 8, 2004, the City took out a note payable to purchase the property at 409 Tolar Cemetery Road, Tolar, Texas. The principal amount of the note was \$33,000 with an interest rate of 4.5%, secured by the property. Payments are due monthly with the final payment due October 1, 2019. Payments are \$252 per month. The balance of this note payable is \$5,565 at September 30, 2017.

The following provides a summary of changes in long-term debt:

	Balance at 9/30/2016	Additions	Retirements	Balance at 9/30/2017	Due Within One Year
<i>Governmental Activities</i>					
Combination Tax & Revenue					
Cert of Obl, Series 2005	\$ 23,100	\$	\$ 7,350	\$ 15,750	\$ 7,350
General Obligation Refunding					
Bonds Series 2005	<u>38,250</u>		<u>12,750</u>	<u>25,500</u>	<u>12,750</u>
	<u>\$ 61,350</u>	<u>\$ -</u>	<u>\$ 20,100</u>	<u>\$ 41,250</u>	<u>\$ 20,100</u>
<i>Business-type Activities</i>					
Combination Tax & Revenue					
Cert of Obl, Series 2005	\$ 86,900	\$	\$ 27,650	\$ 59,250	\$ 27,650
General Obligation Refunding					
Bonds Series 2005	<u>6,750</u>		<u>2,250</u>	<u>4,500</u>	<u>2,250</u>
Heritage National Bank	<u>8,258</u>		<u>2,693</u>	<u>5,565</u>	<u>2,816</u>
	<u>\$ 101,908</u>	<u>\$ -</u>	<u>\$ 32,593</u>	<u>\$ 69,315</u>	<u>\$ 32,716</u>

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 6: LONG-TERM DEBT – continued

Annual requirements to amortize debt outstanding as of September 30, 2017 are as follows:

Governmental Activities

	<u>Interest</u>		<u>Principal</u>		<u>Total</u>
2017 \$	2,104	\$	20,100	\$	22,204
2018	1,090		21,150		22,240
\$	<u>3,194</u>	\$	<u>41,250</u>	\$	<u>44,444</u>

Business-type Activities

2017 \$	3,467	\$	32,716	\$	36,183
2018	1,827		36,599		38,426
\$	<u>5,294</u>	\$	<u>69,315</u>	\$	<u>74,609</u>

The amount of interest cost charged to expenses during the year ended September 30, 2017, was \$8,194.

NOTE 7: RISK MANAGEMENT – CLAIMS AND JUDGEMENTS

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and through the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool for the benefit of 2,800 individual governmental units located within the state. TML Intergovernmental Risk Pool (Pool) is considered a self-sustaining risk pool that provides coverage for its members. The City's contributions to the Pool are limited to the amount of premiums as calculated at the beginning of each fund year. The Pool's liability is limited to the coverage that the City elects as stated in the Pool's Declaration of Coverage for that fund year. Settled claims have not exceeded insurance coverage limits for the past three years.

NOTE 8: TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions.

The following schedule reports transfers and payments within the reporting entity:

	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Total</u>
General fund	\$	\$ (7,708)	(7,708)
Debt service fund	102		102
Water fund	10,531		10,531
Economic Development Corporation		(2,925)	(2,925)

The following schedule reports payables and receivables with funds.

<u>Due To</u>	<u>Due From</u>	
General fund	Debt Service fund	\$ 20,270
Economic development Corporation	General Fund	(8,503)

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Tolar participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	Plan Year	
	2017	2016
Employee deposit rate	7.0%	7.0%
Matching ration (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service).	60/5, 0/25	60/5, 0/25
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms.

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

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: DEFINED BENEFIT PENSION PLAN - continued

	2015	2016
Inactive employees or beneficiaries currently receiving benefits	0	1
Inactive employees entitled to but not yet receiving benefits	6	9
Active employees	5	5
	<u>11</u>	<u>15</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 of Tolar were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Tolar were 7.54% and 9.28% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017, were \$17,488, and were equal to the required contributions.

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% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Because the city is considered a small city by TMRS, these percentages were reduced by 4% for a load of life factor to create a more conservative estimate. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: DEFINED BENEFIT PENSION PLAN - continued

Actuarial assumptions used in the December 31, 2015, 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). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

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

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: DEFINED BENEFIT PENSION PLAN - continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c)
Balance at 12/31/15	\$ 440,279	\$ 398,874	\$ 41,405
Changes for the year:			
Service Cost	31,112		31,112
Interest	30,644		30,644
Changes of benefit terms	-		-
Difference between expected and actual experience	(343)		(343)
Changes of assumptions			-
Contributions - employer		15,684	(15,684)
Contributions - employee		14,896	(14,896)
Net investment income		26,988	(26,988)
Benefit payments, including refunds of employee contributions	(3,699)	(3,699)	-
Administrative expenses		(304)	304
Other charges		(16)	16
Net changes	57,714	53,549	4,165
Balance at 12/31/16	\$ 497,993	\$ 452,423	\$ 45,570

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 110,144	\$ 45,570	\$ (8,007)

Pension Plan Fiduciary Net Pension

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

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

For the year ended September 30, 2017, the city recognized pension expense of \$28,314.

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

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: DEFINED BENEFIT PENSION PLAN - continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$	\$ 247
Changes in actuarial assumptions		
Difference between projected and actual investment earnings		51
Contributions subsequent to the measurement date	13,085	
Total	\$ 13,085	\$ 298

\$13,085 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:	
2018	\$ (109)
2019	(109)
2020	(68)
2021	(12)

NOTE 10: SUPPLEMENTAL DEATH BENEFITS FUND

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

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.

Contributions

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

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 10: SUPPLEMENTAL DEATH BENEFITS FUND – continued

Schedule of Contribution Rates: (RETIREE-only portion of the rate)			
Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2013	0.16%	0.16%	100.0%
2014	0.17%	0.17%	100.0%
2015	0.18%	0.18%	100.0%
2016	0.17%	0.17%	100.0%
2017	0.14%	0.14%	100.0%

NOTE 11: HEALTH CARE COVERAGE

The City pays the employee's portion of health coverage. The city's annual cost was \$42,835. Employees are responsible for the cost of dependent coverage and any additional coverage over the basic amount. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

NOTE 12: GARBAGE COLLECTION SERVICE CONTRACT

The City has a sanitation contract with Progressive Waste Solutions of Texas wherein Progressive Waste Solutions of Texas picks up all garbage of the City and disposes of it. The rates charged flow through to the residents and are included in the water billings they receive. Revenue collected for garbage service is recorded in the General Fund. Total collected during the year ended September 30, 2017 was \$46,018.

NOTE 13: NEW GASB STATEMENTS

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement supersedes Statement No. 55 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The City implemented this statement.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 13: NEW GASB STATEMENTS - continued

In August 2015, the GASB issued Statement No. 77 *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City determined there was no impact upon its financial position, results of operations or cash flows upon adoption.

In December 2015, the GASB issued Statement No. 78 *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan.) This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods after December 15, 2015. The City determined there was no impact upon its financial position, results of operations or cash flows upon adoption.

In December 2015, the GASB issued Statement No. 79 *Certain External Investment Pools and Pool Participants*. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The City determined there was no impact upon its financial position, results of operations or cash flows upon adoption.

In January 2016, the GASB issued Statement No. 80 *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The City determined there was no impact upon its financial position, results of operations or cash flows upon adoption.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 13: NEW GASB STATEMENTS - continued

In March 2016, the GASB issued Statement No. 81 *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 82 *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The City determined there was no impact upon its financial position, results of operations or cash flows upon adoption.

In November 2016, the GASB issued Statement No. 83 *Certain Asset Retirement Obligations*. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2017, the GASB issued Statement No 84 *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TOLAR, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales tax	\$ 122,000	\$ 122,000	\$ 135,532	\$ 13,532
Property tax	158,949	158,949	156,652	(2,297)
Total taxes	280,949	280,949	292,184	11,235
License & permits				
Right of way	24,000	24,000	27,486	3,486
License and permits	7,550	7,550	14,263	6,713
Total license & permits	31,550	31,550	41,749	10,199
Fines and forfeitures	300	300	895	595
Investment income	350	350	989	639
Garbage collection income	41,152	44,152	46,018	1,866
Donation			11,040	11,040
Miscellaneous income	4,500	4,500	7,839	3,339
Total Revenues	358,801	361,801	400,714	38,913
EXPENDITURES				
General government				
General services:				
Insurance	3,605	4,640	4,555	85
Building inspector	7,500	6,000	4,675	1,325
Contract sanitation	41,152	41,152	45,800	(4,648)
Capital outlay	16,000	14,400	19,440	(5,040)
Election expense	3,500	4,171	4,171	
Economic Development Corporation	40,667	40,667	45,177	(4,510)
Miscellaneous	3,548	1,350	1,512	(162)
Office supplies	3,500	2,800	2,923	(123)
Payroll	101,514	101,514	108,639	(7,125)
Payroll Tax	7,420	7,420	6,270	1,150
Retirement	7,606	7,606	7,207	399
Printing & copies	400	350	2,557	(2,207)
Professional services	33,647	44,507	37,933	6,574
Repair & maintenance	13,000	10,500	14,146	(3,646)
Postage and delivery	500	500	448	52
Reference books	300	51	45	6
Software	4,645	5,861	5,860	1
Technical support	3,560	2,500	2,491	9
Telephone	4,440	5,840	6,186	(346)
Travel	3,000	1,700	458	1,242
Utilities	19,310	19,310	17,216	2,094
Total general government	318,814	322,839	337,709	(14,870)
Public service:				
Streets				
Repair	34,500	30,450	21,358	9,092
	34,500	30,450	21,358	9,092
Total expenditures	353,314	353,289	359,067	(5,778)

CITY OF TOLAR, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND - CONTINUED
 YEAR ENDED SEPTEMBER 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	<u>5,487</u>	<u>8,512</u>	<u>41,647</u>	<u>33,135</u>
OTHER FINANCING USES				
Transfers out			<u>(7,708)</u>	<u>(7,708)</u>
Total Other Financing Uses			<u>(7,708)</u>	<u>(7,708)</u>
Net change in fund balance	5,487	8,512	33,939	25,427
Fund Balance - Beginning	<u>136,840</u>	<u>136,840</u>	<u>136,840</u>	
Fund Balance - Ending	\$ <u>142,327</u>	\$ <u>145,352</u>	\$ <u>170,779</u>	\$ <u>25,427</u>

CITY OF TOLAR

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEAR ENDED SEPTEMBER 30, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service cost	\$ 31,112	\$ 26,769	\$ 22,156
Interest (on the total pension liability)	30,644	26,831	23,895
Changes of benefit terms			
Difference between expected and actual experience	(343)	5,248	(6,404)
Change of assumptions		11,509	
Benefit payments, including refunds of employee contributions	<u>(3,699)</u>		
Net Change in Total Pension Liability	57,714	70,357	39,647
Total Pension Liability - Beginning	<u>440,279</u>	<u>369,922</u>	<u>330,275</u>
Total Pension Liability - Ending	\$ <u><u>497,993</u></u>	\$ <u><u>440,279</u></u>	\$ <u><u>369,922</u></u>
 Plan Fiduciary Net Position			
Contributions - employer	\$ 15,684	\$ 11,914	\$ 10,360
Contributions - employee	14,896	13,280	11,641
Net investment income	26,988	551	19,038
Benefit payments, including refunds of employee contributions	(3,699)		
Administrative expense	(304)	(336)	(199)
Other	<u>(16)</u>	<u>(17)</u>	<u>(16)</u>
Net Change in Plan Fiduciary Net Position	53,549	25,392	40,824
Plan Fiduciary Net Position - Beginning	<u>398,874</u>	<u>373,481</u>	<u>332,657</u>
Plan Fiduciary Net Position - Ending	\$ <u><u>452,423</u></u>	\$ <u><u>398,873</u></u>	\$ <u><u>373,481</u></u>
 Net Pension Liability - Ending	\$ <u><u>45,570</u></u>	\$ <u><u>41,406</u></u>	\$ <u><u>(3,559)</u></u>
 Plan fiduciary Net Position as a Percentage of Total Pension Liability	90.85%	90.60%	100.96%
 Covered Employee Payroll	212,803	189,713	166,300
 Net Pension Liability as a Percentage of Covered Employee Payroll	21.41%	21.83%	-2.14%

CITY OF TOLAR

SCHEDULE OF CONTRIBUTIONS
YEAR ENDED SEPTEMBER 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 17,488	\$ 14,787	\$ 12,036
Contributions in relation to actuarially determined contribution	<u>(17,488)</u>	<u>(14,787)</u>	<u>(12,036)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 199,403	\$ 203,094	\$ 185,434
Contributions as a percentage of covered employee payroll	8.77%	7.28%	6.49%

Notes to Schedule of Contributions

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	25 years
Asset Valuation Method	10 Year Smoothed Market; 15% Soft Corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on 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.

OTHER SUPPLEMENTAL INFORMATION

CITY OF TOLAR, TEXAS

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
BUDGET AND ACTUAL - WATER FUND
YEAR ENDED SEPTEMBER 30, 2017**

	Budgeted Amounts		Actual	Adjustments to Budgetary Basis	Actual Favorable (Unfavorable)	Variance Favorable (Unfavorable)
	Original	Final				
OPERATING REVENUES:						
Water sales	\$ 457,175	\$ 457,175	\$ 424,676	\$	\$ 424,676	\$ (32,499)
Total Operating Revenues	<u>457,175</u>	<u>457,175</u>	<u>424,676</u>		<u>424,676</u>	<u>(32,499)</u>
OPERATING EXPENSES:						
Contract labor	1,200	1,200	832		832	368
Depreciation expense			100,467	(100,467)		
Insurance	11,610	11,994	11,099		11,099	895
Lab tests	8,500	7,513	7,749		7,749	(236)
Office expense	4,770	5,386	5,569		5,569	(183)
Payroll expenses	152,562	150,762	146,800		146,800	3,962
Payroll taxes	9,890	9,890	9,677		9,677	213
Retirement	11,997	11,997	29,718		29,718	(17,721)
Permit fees	10,100	9,075	9,025		9,025	50
Professional services	22,300	11,640	11,640		11,640	
Repairs and maintenance	18,500	32,500	22,459		22,459	10,041
Supplies	11,240	11,057	9,413		9,413	1,644
Telephone	3,800	4,200	4,507		4,507	(307)
Travel	3,000	2,780	1,787		1,787	993
Uniforms	750	750	294		294	456
Utilities	31,540	31,540	30,724		30,724	816
Vehicle expense	5,000	4,500	5,055		5,055	(555)
Total Operating Expenses	<u>306,759</u>	<u>306,784</u>	<u>406,815</u>	<u>(100,467)</u>	<u>306,348</u>	<u>436</u>
Net operating income (loss)	<u>150,416</u>	<u>150,391</u>	<u>17,861</u>	<u>100,467</u>	<u>118,328</u>	<u>(32,063)</u>
Nonoperating revenues (expenses)						
Interest income	100	100	574		574	474
Grant income	275,000	275,000	41,900		41,900	(233,100)
Interest expense	(4,799)	(4,774)	(5,085)		(5,085)	(311)
Transfers in			10,531		10,531	10,531
Total nonoperating revenues (expenses)	<u>270,301</u>	<u>270,326</u>	<u>47,920</u>		<u>47,920</u>	<u>(222,406)</u>
Net income (loss)	<u>420,717</u>	<u>420,717</u>	<u>65,781</u>	<u>100,467</u>	<u>166,248</u>	<u>(254,469)</u>
Net Position - Beginning of Year	<u>1,268,018</u>	<u>1,268,018</u>	<u>1,268,018</u>		<u>1,268,018</u>	
Net Position - End of Year	<u>\$ 1,688,735</u>	<u>\$ 1,688,735</u>	<u>\$ 1,333,799</u>	<u>\$ 100,467</u>	<u>\$ 1,434,266</u>	<u>(254,469)</u>

OTHER INFORMATION REQUIRED BY GAO

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

To the City Council
City of Tolar, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the City of Tolar, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Tolar, Texas' basic financial statements and have issued our report thereon dated February 2, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
February 2, 2018

CITY OF TOLAR, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED SEPTEMBER 30, 2017

I. Summary of Auditor's Results:

- a. The type of report issued on the financial statements of the City of Tolar, Texas was an unqualified opinion.
- b. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters required by the GAO's *Government Auditing Standards*.
- c. No instances of noncompliance material to the financial statements of the City of Tolar, Texas were disclosed during the audit.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

- a. No findings required to be reported.

CITY OF TOLAR, TEXAS

SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED SEPTEMBER 30, 2017

PRIOR YEAR

Findings/Noncompliance

None