



CITY OF FREDERICKSBURG

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED

SEPTEMBER 30, 2017

CITY OF FREDERICKSBURG, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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Independent Auditor's Report

Mayor and City Council
City of Fredericksburg, Texas
Fredericksburg, Texas 78624

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas as of and for the twelve months 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Fredericksburg, 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 required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3–10 and 51 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 City of Fredericksburg, Texas's basic financial statements. The accompanying supplementary information such as the introductory and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The accompanying other information 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.

Klein, Kraus and Company, LLC

Klein, Kraus and Company, LLC
Fredericksburg, Texas 78624

February 20, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Fredericksburg, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2017, by \$51,569,933 (net assets). Of this amount, \$5,644,383 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$2,384,915.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,003,856.
- As of September 30, 2017, unreserved fund balance for the General Fund was \$6,775,180 or 44 percent of the current year's total General Fund expenditures of \$15,566,451.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensation absences.)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government administration, public safety, streets, parks and recreation, and health services. The business-type activities of the City include electric, water, wastewater, storm water drainage, solid waste, emergency medical services (EMS), and golf operations.

The government-wide financial statements can be found on pages 11 – 13 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.

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

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Beginning on page 14 of this report, information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered to be the major fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining fund statements and schedules elsewhere in this report.

Proprietary Funds. The City maintains two types of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for electric, water, wastewater, storm water drainage, solid waste, emergency medical services, and golf operations. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City’s various functions. The City uses Internal Service Funds to account for the employee health insurance program. The internal service function has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Internal Service Fund is reported in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18 – 25 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 – 50 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$51,569,933 as of September 30, 2017, compared to \$49,185,018 as of September 30, 2016.

CITY OF FREDERICKSBURG’S NET ASSETS

| | Governmental Activities | | Business-type Activities | | Totals | |
|---------------------------------|-------------------------|-------------------------|--------------------------|-------------------------|-------------------------|-------------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | \$ 8,859,194.73 | \$ 10,568,834.51 | \$ 15,350,429.74 | \$ 13,058,365.76 | \$ 24,209,624.47 | \$ 23,627,200.27 |
| Capital assets | 24,245,885.02 | 19,070,996.35 | 33,926,678.81 | 33,796,155.93 | 58,172,563.83 | 52,867,152.28 |
| Total assets | <u>31,105,079.75</u> | <u>29,639,830.86</u> | <u>49,277,108.55</u> | <u>46,854,521.69</u> | <u>82,382,188.30</u> | <u>76,494,352.55</u> |
| Deferred Outflows of Resources | 9,505.00 | 256,002.00 | -6,845.00 | 193,048.00 | 2,660.00 | 449,050.00 |
| Current liabilities | 1,597,419.18 | 1,870,565.63 | 5,374,981.39 | 4,680,111.00 | 6,972,400.57 | 6,550,676.63 |
| Net Pension Liability | 3,422,112.00 | 3,434,312.00 | 1,134,879.00 | 1,144,772.00 | 4,556,991.00 | 4,579,084.00 |
| Noncurrent liabilities | 9,707,868.45 | 6,712,121.66 | 9,539,709.54 | 9,927,595.14 | 19,247,577.99 | 16,639,716.80 |
| Total liabilities | <u>14,727,399.63</u> | <u>12,016,999.29</u> | <u>16,049,569.93</u> | <u>15,752,478.14</u> | <u>30,776,969.56</u> | <u>27,769,477.43</u> |
| Deferred Inflows of Resources | 183,176.00 | 156,083.00 | -145,230.00 | -167,176.00 | 37,946.00 | -11,093.00 |
| Net Assets: | | | | | | |
| Invested in capital assets, | | | | | | |
| Net of related debt | 15,330,454.64 | 13,084,160.61 | 26,485,171.41 | 26,435,558.83 | 41,815,626.05 | 39,519,719.44 |
| Restricted for Long Term Debt | 52,605.78 | 166,972.88 | 36,893.55 | 48,889.83 | 89,499.33 | 215,862.71 |
| Restricted for Capital Projects | 335,146.56 | 1,502,535.01 | 3,685,277.56 | 3,119,383.83 | 4,020,424.12 | 4,621,918.84 |
| Unrestricted | 2,485,802.14 | 2,969,082.07 | 3,158,581.10 | 1,858,435.06 | 5,644,383.24 | 4,827,517.13 |
| Total net assets | <u>\$ 18,204,009.12</u> | <u>\$ 17,722,750.57</u> | <u>\$ 33,365,923.62</u> | <u>\$ 31,462,267.55</u> | <u>\$ 51,569,932.74</u> | <u>\$ 49,185,018.12</u> |

By far the largest portion of the City’s net assets reflects its investments in capital assets (e.g., land, buildings, equipment and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resource needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets \$5,644,383 may be used to meet the government’s ongoing obligations to citizens and creditors.

City of Fredericksburg
Statement of Activities
For Fiscal Years 2017 and 2016

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|-------------------------|-------------------------|--------------------------|-------------------------|-------------------------|-------------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 1,139,380.63 | \$ 976,509.09 | \$ 22,349,751.05 | \$ 22,112,972.11 | \$ 23,489,131.68 | \$ 23,089,481.20 |
| Operating Grants and Contributions | 1,388,757.47 | 594,463.90 | | | 1,388,757.47 | 594,463.90 |
| General Revenues: | | | | | | |
| Property Taxes | 3,872,167.91 | 3,504,366.55 | 51,586.04 | 79,492.23 | 3,923,753.95 | 3,583,858.78 |
| Sales Taxes | 5,529,686.15 | 5,353,392.29 | | | 5,529,686.15 | 5,353,392.29 |
| Hotel Occupancy Taxes | 2,951,898.79 | 2,800,167.64 | | | 2,951,898.79 | 2,800,167.64 |
| Other Taxes | 765,652.33 | 667,653.41 | | | 765,652.33 | 667,653.41 |
| Miscellaneous Revenue | 219,952.24 | 129,399.47 | 1,276,924.79 | 1,217,581.51 | 1,496,877.03 | 1,346,980.98 |
| Investments Earnings | 53,686.54 | 24,615.98 | 64,543.26 | 32,823.02 | 118,229.80 | 57,439.00 |
| Total Revenues | \$ 15,921,182.06 | \$ 14,050,568.33 | \$ 23,742,805.14 | \$ 23,442,868.87 | \$ 39,663,987.20 | \$ 37,493,437.20 |
| Expenses | | | | | | |
| Administrative | \$ 4,307,740.89 | \$ 3,817,064.68 | | | \$ 4,307,740.89 | \$ 3,817,064.68 |
| Police | 4,654,034.86 | 4,005,292.30 | | | 4,654,034.86 | 4,005,292.30 |
| Fire | 1,143,275.25 | 869,795.14 | | | 1,143,275.25 | 869,795.14 |
| Streets | 2,506,889.53 | 2,220,359.96 | | | 2,506,889.53 | 2,220,359.96 |
| Parks | 2,002,651.86 | 1,845,445.21 | | | 2,002,651.86 | 1,845,445.21 |
| Health | 195,039.89 | 176,072.37 | | | 195,039.89 | 176,072.37 |
| Food and Wine Festival | 185,191.65 | 138,381.71 | | | 185,191.65 | 138,381.71 |
| Emergency Management | 93,520.24 | 127,888.58 | | | 93,520.24 | 127,888.58 |
| Development Services | 521,749.42 | 448,010.64 | | | 521,749.42 | 448,010.64 |
| Municipal Court | 164,387.63 | 150,138.16 | | | 164,387.63 | 150,138.16 |
| Engineering | 231,592.67 | 191,852.92 | | | 231,592.67 | 191,852.92 |
| Electric | | | \$ 10,682,680.02 | \$ 10,797,588.79 | 10,682,680.02 | 10,797,588.79 |
| Water and Sewer | | | 4,411,696.31 | 4,113,580.70 | 4,411,696.31 | 4,113,580.70 |
| Golf | | | 1,548,704.53 | 1,591,061.77 | 1,548,704.53 | 1,591,061.77 |
| Landfill | | | 2,283,266.39 | 2,149,055.65 | 2,283,266.39 | 2,149,055.65 |
| EMS | | | 2,296,081.38 | 2,098,119.48 | 2,296,081.38 | 2,098,119.48 |
| Drainage Utilities | | | 290,826.37 | 276,538.99 | 290,826.37 | 276,538.99 |
| Total Expenses | \$ 16,006,073.89 | \$ 13,990,301.67 | \$ 21,513,255.00 | \$ 21,025,945.38 | \$ 37,519,328.89 | \$ 35,016,247.05 |
| Increase (decrease) in Net Assets Before Transfers | \$ (84,891.83) | \$ 60,266.66 | \$ 2,229,550.14 | \$ 2,416,923.49 | \$ 2,144,658.31 | \$ 2,477,190.15 |
| Gain (Loss) on Retirement of Assets | 135,417.01 | 31,387.50 | 177,346.00 | 61,352.00 | 312,763.01 | 92,739.50 |
| Transfers | 503,240.07 | 449,783.53 | (503,240.07) | (449,783.53) | - | - |
| Change in Net Assets | \$ 553,765.25 | \$ 541,437.69 | \$ 1,903,656.07 | \$ 2,028,491.96 | \$ 2,457,421.32 | \$ 2,569,929.65 |
| Net Assets, Beginning Due to GASB 68 | \$ 17,722,750.57 | \$ 18,488,993.97 | \$ 31,462,267.55 | \$ 29,567,661.13 | \$ 49,185,018.12 | \$ 48,056,655.10 |
| Prior Period Adjustment | (72,506.70) | (1,307,681.09) | - | (133,885.54) | - | (1,441,566.63) |
| Net Assets, Beginning | \$ 17,650,243.87 | \$ 17,181,312.88 | \$ 31,462,267.55 | \$ 29,433,775.59 | \$ 49,112,511.42 | \$ 46,615,088.47 |
| Net Assets, Ending | \$ 18,204,009.12 | \$ 17,722,750.57 | \$ 33,365,923.62 | \$ 31,462,267.55 | \$ 51,569,932.74 | \$ 49,185,018.12 |

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

As a whole, the government's net assets increased by \$2,384,915 during the current fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,003,856. Refer to page 14 of this report for a more detailed presentation of governmental fund balances.

The General Fund is the chief operating fund of the City. The total fund balance of the General Fund was unreserved and amounted to \$6,775,180.

The fund balance of the City's General Fund increased by \$80,098 during the current fiscal year.

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

Unrestricted net assets of the City's Enterprise Funds at the end of the year amounted to \$4,155,075. Net assets of the City's Enterprise Funds increased by \$2,115,602 in the current year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of September 30, 2017, amounts to \$58,172,564 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and infrastructure.

Major capital asset acquisitions occurring during the current fiscal year included the following:

| | |
|---|-------------|
| • Land Purchase | \$3,414,786 |
| • Police Vehicles | 198,563 |
| • Animal Shelter Construction | 1,904,508 |
| • Fire Department Brush Truck & SCBA Equipment | 146,113 |
| • Street Department Equipment | 270,310 |
| • Street Improvements/Sidewalks | 531,297 |
| • Cross Mountain Park Facility | 129,548 |
| • Park Improvements | 101,921 |
| • Electric System Improvements | 180,392 |
| • Waste Water Treatment Plant Office/Lab/Workshop | 229,971 |
| • Water Department Machinery/Equipment | 666,986 |
| • Water/Wastewater System Improvements | 598,037 |

| | |
|--|--------------------|
| • Solid Waste Department Machinery/Equipment | 895,667 |
| • EMS Ambulance Remount | <u>161,000</u> |
| | <u>\$9,429,099</u> |

Additional information on the City’s capital assets can be found on pages 35 – 36 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$14,675,000. The entire amount is debt backed in full faith and credit of the City.

The City carries bond ratings from Standard and Poor’s of AA and from Moody’s Investors Service of Aa3.

Additional information on the City’s long term-debt can be found in pages 40 – 41 of this report.

PROPERTY TAXES

General Fund Property Tax Rate

In the budget for fiscal year-end September 30, 2017, the adopted property tax rate increased from \$.2313 to \$.2400 per \$100 of assessed valuation.

Tax Rate, Levy and Collection History

| Fiscal Year Ended September 30 | Tax Rate | General Fund | Interest and Sinking Fund | Tax Levy | % Current Collections | % Total Collections |
|--------------------------------|----------|--------------|---------------------------|-----------|-----------------------|---------------------|
| 2017 | 0.2400 | 0.2025 | 0.0375 | 3,893,409 | 92.87% | 99.45% |
| 2016 | 0.2313 | 0.1761 | 0.0552 | 3,545,858 | 92.65% | 99.69% |
| 2015 | 0.2482 | 0.1992 | 0.0490 | 3,495,943 | 93.40% | 99.61% |
| 2014 | 0.2600 | 0.1879 | 0.0721 | 3,439,885 | 92.52% | 99.68% |
| 2013 | 0.2647 | 0.1940 | 0.0707 | 3,420,570 | 92.03% | 99.67% |
| 2012 | 0.2444 | 0.1917 | 0.0527 | 3,172,700 | 92.20% | 99.66% |
| 2011 | 0.2365 | 0.1794 | 0.0571 | 3,059,441 | 91.92% | 99.86% |
| 2010 | 0.2319 | 0.1413 | 0.0906 | 3,040,062 | 90.48% | 99.87% |
| 2009 | 0.2350 | 0.1608 | 0.0742 | 2,996,658 | 91.52% | 99.92% |
| 2008 | 0.2414 | 0.1606 | 0.0808 | 2,760,733 | 91.75% | 99.91% |
| 2007 | 0.2566 | 0.1636 | 0.0930 | 2,577,785 | 92.38% | 99.91% |

**City of Fredericksburg
Budget Comparison
For Fiscal Years 2018 and 2017**

| | 2017-2018 <u>Budget</u> | 2016-2017 <u>Budget</u> | Increase <u>(Decrease)</u> | Increase <u>(Decrease)</u> |
|---|----------------------------|----------------------------|-------------------------------|-------------------------------|
| Revenues | | | | |
| General Fund | \$ 16,675,738 | \$ 15,875,280 | \$ 800,458 | 5.04% |
| Electric | 11,530,070 | 13,041,900 | (1,511,830) | -11.59% |
| Water & Sewer | 6,389,010 | 6,250,050 | 138,960 | 2.22% |
| Golf | 1,294,220 | 1,941,800 | (647,580) | -33.35% |
| Landfill | 2,651,775 | 2,522,700 | 129,075 | 5.12% |
| EMS | 2,542,347 | 2,296,600 | 245,747 | 10.70% |
| Drainage | 438,900 | 143,100 | 295,800 | 206.71% |
| Emergency Management | 170,980 | 155,315 | 15,665 | 10.09% |
| Debt Service | 881,000 | 711,361 | 169,639 | 23.85% |
| Internal Service Fund | <u>1,895,820</u> | <u>1,616,148</u> | <u>279,672</u> | <u>17.30%</u> |
| Total Revenues | \$ 44,469,860 | \$ 44,554,254 | \$ (84,394) | -0.19% |
| Expenditures | | | | |
| General Fund | | | | |
| Administrative | \$ 5,300,475 | \$ 5,582,635 | \$ (282,160) | -5.05% |
| Police | 4,926,852 | 4,655,628 | 271,224 | 5.83% |
| Fire | 1,273,985 | 1,033,058 | 240,927 | 23.32% |
| Street | 2,502,523 | 2,560,942 | (58,419) | -2.28% |
| Park | 1,780,685 | 1,727,544 | 53,141 | 3.08% |
| Development Services | 666,709 | 517,723 | 148,986 | 28.78% |
| Health | 208,809 | 193,085 | 15,724 | 8.14% |
| Municipal Court | 186,786 | 177,440 | 9,346 | 5.27% |
| Engineering | 248,849 | 259,758 | (10,909) | -4.20% |
| Food and Wine Festival | <u>193,900</u> | <u>187,700</u> | <u>6,200</u> | <u>3.30%</u> |
| | \$ 17,289,573 | \$ 16,895,513 | \$ 394,060 | 2.33% |
| Electric | \$ 11,519,364 | \$ 13,043,063 | \$ (1,523,699) | -11.68% |
| Water & Sewer | 9,112,161 | 6,613,514 | 2,498,647 | 37.78% |
| Golf | 1,494,216 | 1,489,664 | 4,552 | 0.31% |
| Landfill | 2,298,842 | 2,501,758 | (202,916) | -8.11% |
| EMS | 2,542,347 | 2,326,632 | 215,715 | 9.27% |
| Drainage | 344,000 | 63,500 | 280,500 | 441.73% |
| Emergency Management | 170,897 | 109,263 | 61,634 | 56.41% |
| Debt Service | 873,500 | 696,344 | 177,156 | 25.44% |
| Internal Service Fund | <u>1,997,200</u> | <u>1,516,000</u> | <u>481,200</u> | <u>31.74%</u> |
| Total Expenditures | \$ 47,642,100 | \$ 45,255,251 | \$ 2,386,849 | 5.27% |
| Budgeted Revenues in Excess (Deficiency) of Expenditures | <u>\$ (3,172,240)</u> | <u>\$ (700,997)</u> | <u>\$ (2,471,243)</u> | |

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Laura Hollenbeak, Director of Finance, 126 West Main, Fredericksburg, Texas 78624 or call (830) 997-7521.



BASIC FINANCIAL STATEMENTS

City of Fredericksburg, Texas
Statement of Net Assets
September 30, 2017

| | Primary Government | | | Component Unit Convention & Visitors Bureau |
|---|----------------------------|-----------------------------|-------------------------|---|
| | Governmental Activities | Business-Type Activities | Total | |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 3,628,906.15 | \$ 5,955,469.40 | \$ 9,584,375.55 | \$ 808,654.00 |
| Investments - Current | 3,000,000.00 | 4,150,000.00 | 7,150,000.00 | |
| Tax Receivables (Net of Allowance) | 676,850.07 | | 676,850.07 | |
| Internal Balances | 287,408.73 | 1,639,985.37 | 1,927,394.10 | |
| Intergovernmental Receivable | 1,170,486.53 | 34,042.59 | 1,204,529.12 | |
| Due from Others | 95,543.25 | 2,474,629.43 | 2,570,172.68 | 3,076.00 |
| Inventory | | 1,096,302.95 | 1,096,302.95 | |
| Property and Equipment, Net of Depreciation | | | | |
| Land | 7,583,656.16 | 1,098,666.14 | 8,682,322.30 | |
| Buildings | 9,718,455.39 | 6,996,152.35 | 16,714,607.74 | |
| Improvements | 20,731,701.99 | 56,474,669.02 | 77,206,371.01 | |
| Machinery & Equipment | 7,332,036.33 | 10,228,270.88 | 17,560,307.21 | 110,658.00 |
| Less: Accumulated Depreciation | (21,119,964.85) | (40,871,079.58) | (61,991,044.43) | (88,519.00) |
| Total Assets | <u>\$ 33,105,079.75</u> | <u>\$ 49,277,108.55</u> | <u>\$ 82,382,188.30</u> | <u>\$ 833,869.00</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred Outflow Related To Pension | \$ 9,505.00 | \$ (6,845.00) | \$ 2,660.00 | |
| Total Deferred Outflows of Resources | <u>\$ 9,505.00</u> | <u>\$ (6,845.00)</u> | <u>\$ 2,660.00</u> | |
| LIABILITIES | | | | |
| Accounts Payable | \$ 687,130.48 | \$ 1,184,530.41 | \$ 1,871,660.89 | \$ 132,119.00 |
| Accrued Payroll | 222,890.06 | 184,731.86 | 407,621.92 | |
| Intergovernmental Payable | 193,188.35 | 201,726.85 | 394,915.20 | |
| Accrued Interest Payable | 74,263.27 | 33,556.18 | 107,819.45 | |
| Internal Balances | 84,634.52 | 1,919,057.48 | 2,003,692.00 | |
| Deferred Revenues | 202,219.02 | 1,184,523.78 | 1,386,742.80 | |
| Other Current Liabilities | 133,093.48 | 666,854.83 | 799,948.31 | |
| Net Pension Liability | 3,422,112.00 | 1,134,879.00 | 4,556,991.00 | |
| Noncurrent Liabilities | | | | |
| Due Within One Year | 991,873.60 | 609,985.00 | 1,601,858.60 | |
| Due in More Than One Year | 8,715,994.85 | 8,929,724.54 | 17,645,719.39 | |
| Total Liabilities | <u>\$ 14,727,399.63</u> | <u>\$ 16,049,569.93</u> | <u>\$ 30,776,969.56</u> | <u>\$ 132,119.00</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Inflow Related To Pension | \$ 183,176.00 | \$ (145,230.00) | \$ 37,946.00 | |
| Total Deferred Inflows of Resources | <u>\$ 183,176.00</u> | <u>\$ (145,230.00)</u> | <u>\$ 37,946.00</u> | |
| NET ASSETS | | | | |
| Invested in Fixed Assets, Net of Related Debt | \$ 15,330,454.64 | \$ 26,485,171.41 | \$ 41,815,626.05 | |
| Restricted for Long Term Debt | 52,605.78 | 36,893.55 | 89,499.33 | |
| Restricted for Capital Projects | 335,146.56 | 3,685,277.56 | 4,020,424.12 | |
| Unrestricted Net Assets | 2,485,802.14 | 3,158,581.10 | 5,644,383.24 | 701,750.00 |
| Total Net Assets | <u>\$ 18,204,009.12</u> | <u>\$ 33,365,923.62</u> | <u>\$ 51,569,932.74</u> | <u>\$ 701,750.00</u> |

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Statement of Activities
For the Year Ended September 30, 2017

| Functions/Programs | Program Revenues | | |
|---|------------------|----------------------|------------------------------------|
| Primary Government | Expenses | Charges for Services | Operating Grants and Contributions |
| Governmental Activities: | | | |
| Municipal Court | \$ 164,387.63 | | |
| Administration | 1,384,732.04 | \$ 20,668.52 | \$ 30,000.00 |
| Tourism | 2,923,008.85 | | 32,500.00 |
| Engineering | 231,592.67 | | |
| Police | 4,654,034.86 | 96,761.89 | 770,395.97 |
| Fire | 1,143,275.25 | 24,760.78 | 421,108.02 |
| Emergency Management | 93,520.24 | | 61,945.03 |
| Streets | 2,506,889.53 | 3,709.22 | |
| Parks | 2,002,651.86 | 561,574.47 | 34,500.00 |
| Health | 195,039.89 | 106,624.19 | 38,308.45 |
| Food and Wine Festival | 185,191.65 | 181,925.87 | |
| Development Services | 521,749.42 | 143,355.69 | |
| Total Governmental Activities | \$ 16,006,073.89 | \$ 1,139,380.63 | \$ 1,388,757.47 |
| Business-type Activities: | | | |
| Electric | \$ 10,682,680.02 | \$ 11,445,957.22 | |
| Water | 4,411,696.31 | 6,035,035.98 | |
| Golf | 1,548,704.53 | 886,497.67 | |
| Landfill | 2,283,266.39 | 2,630,059.37 | |
| EMS | 2,296,081.38 | 1,273,646.74 | |
| Drainage | 290,826.37 | 78,554.07 | |
| Total Business-type Activities | \$ 21,513,255.00 | \$ 22,349,751.05 | \$ - |
| Total Government | \$ 37,519,328.89 | \$ 23,489,131.68 | \$ 1,388,757.47 |
| Component Unit | | | |
| Fredericksburg Convention and Visitors Bureau | 2,444,473.00 | | |

| |
|---|
| General Revenues: |
| Taxes |
| Property Taxes |
| Sales Tax |
| Hotel Occupancy Tax |
| Other Taxes |
| Miscellaneous Revenue |
| Investment Earnings |
| Transfers In (Out) |
| Gain (Loss) on Retirement of Fixed Assets |
| Total General Revenues |
| Change in Net Assets |
| Net Assets - Beginning |
| Prior Period Adjustment |
| Net Assets - Ending |

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue
and Changes in Net Assets

| Governmental Activities | Business-type Activities | Total | Component Unit Convention & Visitors Bureau |
|----------------------------|-----------------------------|---------------------------|--|
| \$ (164,387.63) | | \$ (164,387.63) | |
| (1,334,063.52) | | (1,334,063.52) | |
| (2,890,508.85) | | (2,890,508.85) | |
| (231,592.67) | | (231,592.67) | |
| (3,786,877.00) | | (3,786,877.00) | |
| (697,406.45) | | (697,406.45) | |
| (31,575.21) | | (31,575.21) | |
| (2,503,180.31) | | (2,503,180.31) | |
| (1,406,577.39) | | (1,406,577.39) | |
| (50,107.25) | | (50,107.25) | |
| (3,265.78) | | (3,265.78) | |
| (378,393.73) | | (378,393.73) | |
| <u>\$ (13,477,935.79)</u> | <u>\$ -</u> | <u>\$ (13,477,935.79)</u> | |
| | \$ 763,277.20 | \$ 763,277.20 | |
| | 1,623,339.67 | 1,623,339.67 | |
| | (662,206.86) | (662,206.86) | |
| | 346,792.98 | 346,792.98 | |
| | (1,022,434.64) | (1,022,434.64) | |
| | (212,272.30) | (212,272.30) | |
| <u>\$ -</u> | <u>\$ 836,496.05</u> | <u>\$ 836,496.05</u> | |
| <u>\$ (13,477,935.79)</u> | <u>\$ 836,496.05</u> | <u>\$ (12,641,439.74)</u> | |
| | | | <u>(2,444,473.00)</u> |
| \$ 3,872,167.91 | \$ 51,586.04 | \$ 3,923,753.95 | |
| 5,529,686.15 | | 5,529,686.15 | |
| 2,951,898.79 | | 2,951,898.79 | |
| 765,652.33 | | 765,652.33 | |
| 219,952.24 | 1,276,924.79 | 1,496,877.03 | \$ 2,469,241.00 |
| 53,686.54 | 64,543.26 | 118,229.80 | |
| 503,240.07 | (503,240.07) | - | |
| 135,417.01 | 177,346.00 | 312,763.01 | |
| <u>\$ 14,031,701.04</u> | <u>\$ 1,067,160.02</u> | <u>\$ 15,098,861.06</u> | <u>\$ 2,469,241.00</u> |
| \$ 553,765.25 | \$ 1,903,656.07 | \$ 2,457,421.32 | \$ 24,768.00 |
| \$ 17,722,750.57 | \$ 31,462,267.55 | \$ 49,185,018.12 | \$ 670,987.00 |
| (72,506.70) | | (72,506.70) | 5,995.00 |
| <u>\$ 18,204,009.12</u> | <u>\$ 33,365,923.62</u> | <u>\$ 51,569,932.74</u> | <u>\$ 701,750.00</u> |

**City of Fredericksburg
Governmental Funds
Balance Sheet
September 30, 2017**

| | General | Capital Project | Debt Service | Total |
|---|------------------------|----------------------|---------------------|------------------------|
| Assets | | | | |
| Cash and Cash Equivalents | \$ 2,766,719.76 | \$ 335,146.56 | \$ 49,902.09 | \$ 3,151,768.41 |
| Investments | 3,000,000.00 | | | 3,000,000.00 |
| Taxes Receivable (Net of Allowance for Uncollectible) | 676,850.07 | | | 676,850.07 |
| Receivable (Net of Allowance for Uncollectible) | 92,804.55 | | | 92,804.55 |
| Intergovernmental Receivables | 1,170,486.53 | | | 1,170,486.53 |
| Due from Other Funds | 287,305.04 | 2,500.00 | 103.69 | 289,908.73 |
| Total Assets | <u>\$ 7,994,165.95</u> | <u>\$ 337,646.56</u> | <u>\$ 50,005.78</u> | <u>\$ 8,381,818.29</u> |
| Liabilities and Fund Balance | | | | |
| Accounts Payable | \$ 444,455.15 | \$ 146,524.59 | | \$ 590,979.74 |
| Wages and Salaries Payable | 222,890.06 | | | 222,890.06 |
| Intergovernmental Payable | 193,188.35 | | | 193,188.35 |
| Due to other Funds | 74,683.40 | | \$ 12,451.12 | 87,134.52 |
| Deferred Revenues | 150,675.91 | | | 150,675.91 |
| Other Current Liabilities | 133,093.48 | | | 133,093.48 |
| Total Liabilities | <u>\$ 1,218,986.35</u> | <u>\$ 146,524.59</u> | <u>\$ 12,451.12</u> | <u>\$ 1,377,962.06</u> |
| Fund Balance | | | | |
| Reserved for: | | | | |
| Debt service | | | \$ 37,554.66 | \$ 37,554.66 |
| Capital Improvements | | \$ 191,121.97 | | 191,121.97 |
| Unreserved reported in General Fund | \$ 6,775,179.60 | | | 6,775,179.60 |
| Total Fund Balances | <u>\$ 6,775,179.60</u> | <u>\$ 191,121.97</u> | <u>\$ 37,554.66</u> | <u>\$ 7,003,856.23</u> |
| Total Liabilities and Fund Balance | <u>\$ 7,994,165.95</u> | <u>\$ 337,646.56</u> | <u>\$ 50,005.78</u> | <u>\$ 8,381,818.29</u> |

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg
Reconciliation of the Governmental Funds Balance Sheet to
the Statement of Net Assets
September 30, 2017

| | |
|--|-----------------------------------|
| Total Fund Balances - Governmental Funds | \$7,003,856 |
| The City uses an internal service fund to charge the cost of hospitalization self insurance to appropriate functions in other governmental funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net assets. | 383,726 |
| 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 \$39,555,431 and the accumulated depreciation was \$20,484,435. The net effect of including the beginning balances for capital assets (net of accumulated depreciation) in the government-wide financials is an increase (decrease) to net assets. | 19,070,996 |
| Deferred outflow of resources represent the consumption of net assets that are applicable to a future reporting period. | (243,435) |
| Current year net capital outlays are expenditures in the fund financial statements, but they should be shown as increases to capital assets in the government-wide financial statements. The net effect of including 2017 net capital outlays is an increase (decrease) to net assets. | 6,828,928 |
| The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to increase (decrease) net assets. | (1,654,039) |
| Long term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including beginning balances for long-term debt in the government-wide activities is to increase (decrease) net assets. | (10,034,315) |
| Current year proceeds from issuance of long-term debt are reported as other financing sources in the fund financial statements, but they should be shown as an increase to long-term debt in the government-wide financial statements. The net effect of including 2017 bond proceeds is an increase (decrease) to net assets. | (4,001,377) |
| Current year 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. The net effect of including 2017 debt principal payments is to increase (decrease) net assets. | 883,167 |
| Deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period. | (27,093) |
| Various other reclassification and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets. | (6,405) |
| Net Assets of Governmental Activities | <u><u>\$18,204,009</u></u> |

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2017

| | General | Capital Project | Debt Service | Total |
|--|-------------------------|-------------------------|------------------------|--------------------------|
| Revenues | | | | |
| General Property Taxes | \$ 3,313,704.91 | | \$ 566,627.35 | \$ 3,880,332.26 |
| General Sales and Use Taxes | 5,529,686.15 | | | 5,529,686.15 |
| Hotel Occupancy Taxes | 2,951,898.79 | | | 2,951,898.79 |
| Other Taxes | 765,652.33 | | | 765,652.33 |
| Licenses and Permits | 250,047.88 | | | 250,047.88 |
| Charges for Services | 3,709.22 | | | 3,709.22 |
| Fines | 85,523.79 | | | 85,523.79 |
| Pavilion and Camping Fees | 507,310.00 | | | 507,310.00 |
| Rentals | 21,105.52 | | | 21,105.52 |
| Intergovernmental Revenue | 548,502.54 | | | 548,502.54 |
| Grants | 71,397.93 | \$ 700,000.00 | | 771,397.93 |
| Investment Earnings | 53,007.37 | 516.53 | 162.64 | 53,686.54 |
| Other Revenues | 557,431.87 | | | 557,431.87 |
| Total Revenues | <u>\$ 14,658,978.30</u> | <u>\$ 700,516.53</u> | <u>\$ 566,789.99</u> | <u>\$ 15,926,284.82</u> |
| Expenditures | | | | |
| Municipal Court | \$ 158,282.82 | | | \$ 158,282.82 |
| Administration | 1,125,512.17 | \$ 99,376.01 | | 1,224,888.18 |
| Tourism | 2,922,306.12 | | | 2,922,306.12 |
| Police | 4,173,156.59 | | | 4,173,156.59 |
| Fire | 954,842.09 | | | 954,842.09 |
| Emergency Management | 91,102.55 | | | 91,102.55 |
| Streets | 1,704,695.59 | | | 1,704,695.59 |
| Parks | 1,448,274.40 | | | 1,448,274.40 |
| Health | 184,286.10 | | | 184,286.10 |
| Food and Wine Festival | 185,191.65 | | | 185,191.65 |
| Development Services | 504,407.18 | | | 504,407.18 |
| Engineering | 211,802.94 | | | 211,802.94 |
| Debt Service | | | | |
| Principal | 383,304.86 | | \$ 567,014.50 | 950,319.36 |
| Interest | 9,652.76 | | 129,154.62 | 138,807.38 |
| Capital Outlays | 1,509,633.47 | 5,319,294.60 | | 6,828,928.07 |
| Total Expenditures | <u>\$ 15,566,451.29</u> | <u>\$ 5,418,670.61</u> | <u>\$ 696,169.12</u> | <u>\$ 21,681,291.02</u> |
| Excess of Revenues Over (Under) Expenditures | <u>\$ (907,472.99)</u> | <u>\$(4,718,154.08)</u> | <u>\$ (129,379.13)</u> | <u>\$ (5,755,006.20)</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Real and Personal Property | \$ 135,417.01 | | | \$ 135,417.01 |
| Transfers in | 1,692,600.00 | | \$ 2,460.91 | 1,695,060.91 |
| Transfers (out) | (1,189,359.93) | \$ (2,460.91) | | (1,191,820.84) |
| Proceeds from Issuance of Debt | 348,914.00 | 3,652,463.30 | | 4,001,377.30 |
| Total Other Financing Sources (Uses) | <u>\$ 987,571.08</u> | <u>\$ 3,650,002.39</u> | <u>\$ 2,460.91</u> | <u>\$ 4,640,034.38</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | <u>\$ 80,098.09</u> | <u>\$(1,068,151.69)</u> | <u>\$ (126,918.22)</u> | <u>\$ (1,114,971.82)</u> |
| Fund Balances - Beginning | 6,695,081.51 | 1,259,273.66 | 164,472.88 | 8,118,828.05 |
| Fund Balances - Ending | <u>\$ 6,775,179.60</u> | <u>\$ 191,121.97</u> | <u>\$ 37,554.66</u> | <u>\$ 7,003,856.23</u> |

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
 Changes in Fund Balances to the Statement of Activities
 September 30, 2017

Total Net Change in Fund Balances - Governmental Funds (\$1,114,972)

The City uses an internal service fund to charge the cost of hospitalization insurance to the governmental funds. The net income (loss) of this internal service fund is consolidated with the governmental fund in the Statement of Activities. (70,904)

Governmental funds report capital outlays as expenditures. However in the Statement of Activities these costs are reported as depreciation expense to allocate the expenditures over the life of the asset.

| | |
|----------------------|-------------|
| Capital Outlays | 6,828,928 |
| Depreciation Expense | (1,654,039) |

Bond proceeds provide current financial resources to government funds, but issuing debt increases long term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

| | |
|--------------------|-------------|
| Bond Proceeds | (4,001,377) |
| Principal Payments | 950,319 |

Some expenses in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | |
|--------------------------|-----------|
| Compensated Balances | (67,152) |
| Accrued Interest Expense | (50,545) |
| Pension Expense | (261,390) |

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy and eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest.

| | |
|------------------|---------|
| Deferred Revenue | (5,103) |
|------------------|---------|

Change in Net Assets of Governmental Activities \$553,765

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Proprietary Funds
Statement of Net Assets
September 30, 2017

| | Business-type Activities - Enterprise Funds | | | |
|---|---|-------------------------|------------------------|------------------------|
| | Electric | Water | Golf | Landfill |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and Cash Equivalents | \$ 1,410,354.38 | \$ 3,385,355.90 | \$ (382,371.76) | \$ 1,356,370.89 |
| Investments | 500,000.00 | 3,400,000.00 | | 250,000.00 |
| Internal Balances | 819,863.36 | | | 819,863.36 |
| Intergovernmental Receivable | 2,635.44 | 2,635.44 | | |
| Accounts Receivable (Net of Allowance) | 1,099,116.91 | 633,206.85 | | 353,927.35 |
| Inventory | 759,997.74 | 251,717.03 | 84,588.18 | |
| Total Current Assets | <u>\$ 4,591,967.83</u> | <u>\$ 7,672,915.22</u> | <u>\$ (297,783.58)</u> | <u>\$ 2,780,161.60</u> |
| Non-current Assets: | | | | |
| Property and Equipment | | | | |
| Land | \$ 89,475.12 | \$ 494,243.13 | \$ 305,398.59 | \$ 209,549.30 |
| Buildings | 2,039,885.92 | 2,726,357.36 | 1,753,472.54 | 107,770.44 |
| Improvements | 8,595,346.38 | 34,201,327.63 | 3,206,159.00 | 5,274,853.96 |
| Machinery and Equipment | 1,296,056.50 | 2,827,006.46 | 634,607.69 | 4,077,499.80 |
| Less: Accumulated Depreciation | (9,648,540.35) | (16,574,226.17) | (2,664,560.73) | (7,448,528.57) |
| Total Noncurrent Assets | <u>\$ 2,372,223.57</u> | <u>\$ 23,674,708.41</u> | <u>\$ 3,235,077.09</u> | <u>\$ 2,221,144.93</u> |
| Total Assets | <u>\$ 6,964,191.40</u> | <u>\$ 31,347,623.63</u> | <u>\$ 2,937,293.51</u> | <u>\$ 5,001,306.53</u> |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | \$ 810,876.11 | \$ 312,052.35 | \$ 23,883.33 | \$ 22,063.80 |
| Accrued Payroll | 38,853.31 | 44,549.93 | 26,507.28 | 35,377.06 |
| Intergovernmental Payable | 117,712.02 | | 7,410.04 | 31,329.75 |
| Accrued Interest Payable | | 26,090.07 | 113.92 | 5,009.51 |
| Internal Balances | 90,122.34 | 69,279.49 | 1,645,457.32 | 32,812.85 |
| Other Current Liabilities | 378,932.98 | 256,765.90 | 17,255.95 | 13,900.00 |
| Capital Leases Payable | | 376,217.77 | 24,714.45 | 593,010.74 |
| Bonds Payable-Current Maturity | | | | |
| General Obligation Bonds | | 255,000.00 | | |
| Revenue Bonds | | 295,000.00 | | |
| Total Current Liabilities | <u>\$ 1,436,496.76</u> | <u>\$ 1,634,955.51</u> | <u>\$ 1,745,342.29</u> | <u>\$ 733,503.71</u> |
| Noncurrent Liabilities: | | | | |
| Bonds Payable-Non Current | | | | |
| General Obligation Bonds | | | | |
| Revenue Bonds | | \$ 5,645,000.00 | | |
| Unamortized Charge-Refunding Bond | | (55,112.22) | | |
| Unamortized Premiums (Discount) on Bonds | | | | |
| Compensated Absences | \$ 154,164.10 | 124,548.98 | \$ 106,938.85 | \$ 124,092.70 |
| Closure and Post Closure Liability | | | | 2,644,823.64 |
| Total Noncurrent Liabilities | <u>\$ 154,164.10</u> | <u>\$ 5,714,436.76</u> | <u>\$ 106,938.85</u> | <u>\$ 2,768,916.34</u> |
| Total Liabilities | <u>\$ 1,590,660.86</u> | <u>\$ 7,349,392.27</u> | <u>\$ 1,852,281.14</u> | <u>\$ 3,502,420.05</u> |
| Net Assets | | | | |
| Invested in Fixed Assets, Net of Related Debt | \$ 2,372,223.57 | \$ 17,103,490.64 | \$ 3,210,362.64 | \$ 1,687,453.57 |
| Restricted for Long Term Debt | | 34,782.34 | | |
| Restricted for Capital Projects | | 3,323,291.74 | | 361,985.82 |
| Unrestricted Net Assets | 3,001,306.97 | 3,536,666.64 | (2,125,350.27) | (550,552.91) |
| Total Net Assets | <u>\$ 5,373,530.54</u> | <u>\$ 23,998,231.36</u> | <u>\$ 1,085,012.37</u> | <u>\$ 1,498,886.48</u> |

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Proprietary Funds
Statement of Net Assets
September 30, 2017

| EMS | Drainage | Enterprise Fund Totals | Governmental Activities Internal Service Fund |
|----------------------|------------------------|---------------------------|--|
| \$ 53,906.50 | \$ 131,853.49 | \$ 5,955,469.40 | \$ 477,137.74 |
| | 258.65 | 4,150,000.00 | |
| 28,771.71 | | 1,639,985.37 | |
| 381,415.41 | 6,962.91 | 34,042.59 | |
| | | 2,474,629.43 | 2,738.70 |
| | | 1,096,302.95 | |
| <u>\$ 464,093.62</u> | <u>\$ 139,075.05</u> | <u>\$ 15,350,429.74</u> | <u>\$ 479,876.44</u> |
| | | \$ 1,098,666.14 | |
| \$ 368,666.09 | | 6,996,152.35 | |
| 9,022.83 | \$ 5,187,959.22 | 56,474,669.02 | |
| 1,390,770.43 | 2,330.00 | 10,228,270.88 | |
| (1,220,011.72) | (3,315,212.04) | (40,871,079.58) | |
| <u>\$ 548,447.63</u> | <u>\$ 1,875,077.18</u> | <u>\$ 33,926,678.81</u> | <u>\$ -</u> |
| \$ 1,012,541.25 | \$ 2,014,152.23 | \$ 49,277,108.55 | \$ 479,876.44 |
| \$ 15,654.82 | | \$ 1,184,530.41 | \$ 96,150.74 |
| 39,444.28 | | 184,731.86 | |
| 45,275.04 | | 201,726.85 | |
| 1,887.79 | \$ 454.89 | 33,556.18 | |
| 81,385.48 | | 1,919,057.48 | |
| | | 666,854.83 | |
| 190,580.82 | | 1,184,523.78 | |
| | 59,985.00 | 314,985.00 | |
| | | 295,000.00 | |
| <u>\$ 374,228.23</u> | <u>\$ 60,439.89</u> | <u>\$ 5,984,966.39</u> | <u>\$ 96,150.74</u> |
| | \$ 61,318.00 | \$ 61,318.00 | |
| | | 5,645,000.00 | |
| | (4,989.53) | (60,101.75) | |
| | 1,491.73 | 1,491.73 | |
| \$ 127,448.29 | | 637,192.92 | |
| | | 2,644,823.64 | |
| <u>\$ 127,448.29</u> | <u>\$ 57,820.20</u> | <u>\$ 8,929,724.54</u> | <u>\$ -</u> |
| <u>\$ 501,676.52</u> | <u>\$ 118,260.09</u> | <u>\$ 14,914,690.93</u> | <u>\$ 96,150.74</u> |
| \$ 357,866.81 | \$ 1,753,774.18 | \$ 26,485,171.41 | |
| | 2,111.21 | 36,893.55 | |
| | | 3,685,277.56 | |
| 152,997.92 | 140,006.75 | 4,155,075.10 | \$ 383,725.70 |
| <u>\$ 510,864.73</u> | <u>\$ 1,895,892.14</u> | <u>\$ 34,362,417.62</u> | <u>\$ 383,725.70</u> |

City of Fredericksburg, Texas
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2017

| | Business-type Activities - Proprietary Funds | | |
|---|--|-------------------------|------------------------|
| | Electric | Water | Golf |
| OPERATING REVENUES | | | |
| Electric Sales | \$ 11,382,879.18 | | |
| Water Sales | | \$ 3,106,470.48 | |
| Sewer Sales | | 2,909,001.50 | |
| Golf Course Fees | | | \$ 879,031.34 |
| Garbage Collection and Tipping Fees | | | |
| EMS Fees | | | |
| Drainage Utilities | | | |
| Licenses and Permits | 24,752.00 | 19,564.00 | |
| Property Taxes | | | |
| Rents and Royalties | 38,326.04 | 861.00 | 7,466.33 |
| Other Revenue | 239,581.51 | 585,052.10 | 1,627.93 |
| Total Operating Revenues | <u>\$ 11,685,538.73</u> | <u>\$ 6,620,949.08</u> | <u>\$ 888,125.60</u> |
| OPERATING EXPENSES | | | |
| Salaries and Wages | \$ 924,668.46 | \$ 1,069,064.09 | \$ 582,421.56 |
| Employee Benefits | 264,164.14 | 339,789.79 | 214,024.56 |
| Contracted Services | 116,680.12 | 70,907.28 | 13,760.74 |
| Other Operating Expenses | 9,019,265.90 | 1,485,837.61 | 520,076.15 |
| Amortization of Bond Costs | | 7,871.59 | - |
| Depreciation | 313,793.42 | 1,192,087.39 | 173,550.73 |
| Total Operating Expenses | <u>\$ 10,638,572.04</u> | <u>\$ 4,165,557.75</u> | <u>\$ 1,503,833.74</u> |
| Operating Income (Loss) | \$ 1,046,966.69 | \$ 2,455,391.33 | \$ (615,708.14) |
| Nonoperating Revenues (Expenses): | | | |
| Investment Income | \$ 19,902.91 | \$ 26,832.83 | \$ 18.72 |
| Gain (Loss) on Disposal of Fixed Assets | - | - | - |
| Interest Expense | | (195,142.71) | (17,088.51) |
| Transfers to Other Funds | (939,900.00) | (530,900.00) | |
| Transfers from Other Funds | | | 652,200.00 |
| Gain (Loss) on Sale of Fixed Assets | - | 995.00 | - |
| Total Nonoperating Revenues (Expenses) | <u>\$ (919,997.09)</u> | <u>\$ (698,214.88)</u> | <u>\$ 635,130.21</u> |
| Changes in Net Assets | \$ 126,969.60 | \$ 1,757,176.45 | \$ 19,422.07 |
| Total Net Assets - Beginning | \$ 5,246,560.94 | \$ 22,241,054.91 | \$ 1,065,590.30 |
| Prior Period Adjustment | | | |
| Total Net Assets - Ending | <u>\$ 5,373,530.54</u> | <u>\$ 23,998,231.36</u> | <u>\$ 1,085,012.37</u> |

The notes to the Financial Statements are an integral part of this statement.

| <u>Landfill</u> | <u>EMS</u> | <u>Drainage</u> | <u>Totals</u> | <u>Governmental Activities Internal Service Fund</u> |
|------------------------|------------------------|------------------------|-------------------------|--|
| | | | \$ 11,382,879.18 | |
| | | | 3,106,470.48 | |
| | | | 2,909,001.50 | |
| | | | 879,031.34 | |
| \$ 2,629,909.37 | | | 2,629,909.37 | |
| | \$ 1,273,646.74 | | 1,273,646.74 | |
| 150.00 | | \$ 78,554.07 | 78,554.07 | |
| | | | 44,466.00 | |
| | | 51,586.04 | 51,586.04 | |
| | | | 46,653.37 | |
| 973.00 | 448,829.25 | | 1,276,063.79 | \$1,608,495.67 |
| <u>\$ 2,631,032.37</u> | <u>\$ 1,722,475.99</u> | <u>\$ 130,140.11</u> | <u>\$ 23,678,261.88</u> | <u>\$1,608,495.67</u> |
| \$ 805,063.15 | \$ 1,061,967.47 | | \$ 4,443,184.73 | |
| 283,425.89 | 328,452.26 | | 1,429,856.64 | |
| 19,552.32 | 4,872.61 | \$ 100.00 | 225,873.07 | |
| 595,365.15 | 707,158.92 | 96.22 | 12,327,799.95 | \$1,684,348.92 |
| | | 1,748.93 | 9,620.52 | |
| 541,457.27 | 140,630.59 | 283,720.00 | 2,645,239.40 | |
| <u>\$ 2,244,863.78</u> | <u>\$ 2,243,081.85</u> | <u>\$ 285,665.15</u> | <u>\$ 21,081,574.31</u> | <u>\$1,684,348.92</u> |
| \$ 386,168.59 | \$ (520,605.86) | \$ (155,525.04) | \$ 2,596,687.57 | \$ (75,853.25) |
| \$ 13,818.47 | \$ 76.54 | \$ 3,893.79 | \$ 64,543.26 | \$ 4,949.47 |
| - | - | - | - | |
| (221,800.00) | (2,342.25) | (5,161.22) | (219,734.69) | |
| | 537,159.93 | | (1,692,600.00) | |
| 170,901.00 | 5,450.00 | - | 1,189,359.93 | |
| | | | 177,346.00 | |
| <u>\$ (37,080.53)</u> | <u>\$ 540,344.22</u> | <u>\$ (1,267.43)</u> | <u>\$ (481,085.50)</u> | <u>\$ 4,949.47</u> |
| \$ 349,088.06 | \$ 19,738.36 | \$ (156,792.47) | \$ 2,115,602.07 | \$ (70,903.78) |
| \$ 1,149,798.42 | \$ 491,126.37 | \$ 2,052,684.61 | \$ 32,246,815.55 | \$ 527,136.18 |
| | | | - | (72,506.70) |
| <u>\$ 1,498,886.48</u> | <u>\$ 510,864.73</u> | <u>\$ 1,895,892.14</u> | <u>\$ 34,362,417.62</u> | <u>\$ 383,725.70</u> |

City of Fredericksburg, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2017

| | Enterprise Funds | |
|---|-------------------------------|-------------------------------|
| | Electric | Water |
| Cash Flows from Operating Activities | | |
| Cash Received from Customers | \$ 11,729,729.43 | \$ 6,547,471.77 |
| Cash Payments to Employees for Services | (1,186,092.35) | (1,418,248.83) |
| Cash Payments for Suppliers | (8,948,418.08) | (1,564,725.37) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 1,595,219.00</u> | <u>\$ 3,564,497.57</u> |
| Cash Flows from Non-capital Financing Activities | | |
| Operating Transfers Out | \$ (939,900.00) | \$ (530,900.00) |
| Operating Transfers In | | |
| Net Cash Provided (Used) by Non-capital Financing Activities | <u>\$ (939,900.00)</u> | <u>\$ (530,900.00)</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Acquisition of Capital Assets | \$ (217,188.49) | \$ (1,499,791.12) |
| Capital Lease Proceeds | | 571,568.00 |
| Principal Paid on Capital Debt | | (766,081.25) |
| Interest Paid on Capital Debt | | (195,142.71) |
| Proceeds from the Sale of Capital Assets | | 995.00 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>\$ (217,188.49)</u> | <u>\$ (1,888,452.08)</u> |
| Cash Flows from Investing Activities | | |
| Interest Received on Investments | \$ 19,902.91 | \$ 26,832.83 |
| Net Cash Provided by Investing Activities | <u>\$ 19,902.91</u> | <u>\$ 26,832.83</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>\$ 458,033.42</u> | <u>\$ 1,171,978.32</u> |
| Cash and Cash Equivalents, Beginning | <u>1,452,320.96</u> | <u>5,613,377.58</u> |
| Cash and Cash Equivalents, Ending | <u><u>\$ 1,910,354.38</u></u> | <u><u>\$ 6,785,355.90</u></u> |

The notes to the Financial Statements are an integral part of this statement

City of Fredericksburg, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2017

| | Enterprise Funds | | |
|--|------------------------|------------------------|-----------------------|
| | Electric | Water | Golf |
| <u>Provided (Used) by Operating Activities:</u> | | | |
| Operating Income (Loss) | \$ 1,046,966.69 | \$ 2,455,391.33 | \$(615,708.14) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities: | | | |
| Depreciation | 313,793.42 | 1,192,087.39 | 173,550.73 |
| Amortization | | 7,871.59 | |
| Effect of Increases and Decreases in Current Assets and Liabilities: | | | |
| Decrease (Increase) in Receivables | 44,190.70 | (73,477.31) | |
| Decrease (Increase) in Due from Other Funds | 45,476.00 | | |
| Decrease (Increase) in Due from Other Governments | (1,033.37) | (1,033.37) | |
| Decrease (Increase) in Inventories | 162,126.65 | 13,976.03 | 3,026.12 |
| Increase (Decrease) in Accounts Payable | (67,354.97) | (96,952.97) | 1,354.75 |
| Increase (Decrease) in Wages Payable | 2,740.25 | (9,394.95) | 1,743.90 |
| Increase (Decrease) in Interest Payable | | 847.87 | (491.74) |
| Increase (Decrease) in Due to Other Funds | (420.54) | 15,107.40 | (90,951.93) |
| Increase (Decrease) in Due to Other Governments | 7,344.99 | | (1,318.57) |
| Increase (Decrease) in Compensated Absences Payable | 5,437.63 | (2,446.51) | 11,280.12 |
| Increase (Decrease) in Landfill Closure Liability | | | |
| Increase (Decrease) in Other Current Liabilities | 35,951.55 | 62,521.07 | (1,402.57) |
| Net Cash Provided by (Used For) Operating Activities | <u>\$ 1,595,219.00</u> | <u>\$ 3,564,497.57</u> | <u>\$(518,917.33)</u> |

The notes to the Financial Statements are an integral part of this statement.

| <u>Landfill</u> | <u>EMS</u> | <u>Drainage</u> | <u>Totals</u> | <u>Internal Service Fund</u> |
|------------------------|-----------------------|----------------------|------------------------|--------------------------------------|
| \$ 386,168.59 | \$ (520,605.86) | \$ (155,525.04) | \$ 2,596,687.57 | \$ (75,853.25) |
| 541,457.27 | 140,630.59 | 283,720.00 | 2,645,239.40 | |
| | | 1,748.93 | 9,620.52 | |
| (5,932.86) | (68,915.05) | (108.47) | (104,242.99) | (2,738.70) |
| 45,476.00 | 154,439.43 | (141.76) | 245,249.67 | |
| | 102,963.10 | | 100,896.36 | |
| | | | 179,128.80 | |
| 1,295.53 | (9,478.66) | | (171,136.32) | (53,849.26) |
| 1,419.79 | (3,693.67) | | (7,184.68) | |
| 2,063.99 | (70.92) | (217.44) | 2,131.76 | |
| 7,957.99 | 74,371.36 | | 6,064.28 | |
| 13,241.78 | 45,275.04 | | 64,543.24 | |
| 10,699.29 | 25,577.34 | | 50,547.87 | |
| 144,931.51 | | | 144,931.51 | |
| 1,500.00 | | | 98,570.05 | |
| <u>\$ 1,150,278.88</u> | <u>\$ (59,507.30)</u> | <u>\$ 129,476.22</u> | <u>\$ 5,861,047.04</u> | <u>\$ (132,441.21)</u> |



NOTES TO THE FINANCIAL STATEMENTS

CITY OF FREDERICKSBURG, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fredericksburg, Texas (the "City") is a municipal corporation incorporated under Article XI, Section 4 of the Constitution of the State of Texas. The City operates under a Council-Manager form of government and provides such services as are authorized by its code of ordinances and its inhabitants. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The City has no blended component units. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

A. Discretely Presented Component Unit

The Fredericksburg Convention and Visitor Bureau's mission is to create a positive business environment, take a leadership role in community affairs, be an information resource for its members, help in providing a better quality of life for its citizens and increase growth of the overnight tourism and meeting industry in Fredericksburg.

The Bureau is governed by a Board of Directors comprised of 11 members. Each member is appointed by the City Council of the City of Fredericksburg. The Bureau also provides the City with financial information, as required by City Council. In addition, the annual budget for the Bureau must be approved by City Council. These facts distinguish the Bureau as a discretely presented component unit of the City.

Complete financial statements for the component unit may be obtained at the Fredericksburg Convention and Visitor Bureau's administrative office, which is located at 302 E. Austin St., Fredericksburg, Texas 78624.

B. Government-Wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who

purchase, use, or indirectly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City has the following major governmental fund:

The **General Fund** – is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The City reports the following proprietary funds:

The **Electric Fund** – is used to account for operations that are intended to be self-supporting

The **Water and Sewer Fund** – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates water and sewer services.

The **Golf Course Fund** – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates a golf course facility.

The **Solid Waste Fund** – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates a sanitary landfill.

The **Emergency Medical Service Fund (EMS)** – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates Emergency Medical Services jointly with the County of Gillespie.

The **Drainage Utilities Fund** – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates drainage utilities services.

Additionally, the government reports the following fund types:

Internal Service Fund account for Health Insurance services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds, and of the City's Internal Service Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund and Internal Service Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

Cash and temporary investments consist of demand deposits, time deposits, and balances in public funds investment pools. Short-term investments are stated at cost.

For the purpose of the statement of cash flows, the Proprietary Fund Types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, 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. All other investments are reported at fair value unless a legal contract exists which guarantees a higher 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.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). There were no balances that were considered "advanced to/from other funds" at September 30, 2017. All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is based on historical collection rates.

Property taxes are levied by October 1 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 imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Gillespie Central Appraisal District ("GCAD") establishes appraised values. Taxes are levied by the City Council based on the appraised values received from the GCAD. The Gillespie Central Appraisal District Tax Assessor performs billings and collection of tax levies.

3. Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories in the Enterprise Fund are valued at cost (first-in, first-out method).

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. (The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year.) Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|-----------------------------------|---------|
| Buildings | 10 – 50 |
| Improvements other than buildings | 10 – 50 |
| Equipment | 5 – 15 |
| Infrastructure | 30 |

5. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused personal time off (PTO). Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Employees may only carry 480 hours of PTO over into the next calendar year. Expenditures are reported for these amounts.

6. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing

sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for the use for specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

9. Use of Estimates

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

10. Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. The reclassifications did not change total assets, total liabilities, total fund equity, total revenue of funds and total expense/expenditures.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “*Various other reclassifications and eliminations*” The details of this \$6,405 difference are as follows:

| | | |
|---|----|-----------------|
| Deferred Revenues | \$ | 67,859 |
| Accrued Interest Expense | | <u>(74,264)</u> |
| Net adjustment to increase <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i> | \$ | <u>6,405</u> |

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “*Various other reclassifications and eliminations*” The details of this \$(1,731) difference are as follows:

| | | |
|---|----|----------------|
| Reclass delinquent property taxes collected in current year | \$ | <u>(1,731)</u> |
| Net adjustment to increase <i>net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities</i> | \$ | <u>(1,731)</u> |

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements.

1. At least 30 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The proposed budget includes estimated revenue and proposed expenditures for the General and Special Revenue Funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally adopted on a fund basis by the City Council.
4. The City Council can adjust the budget during its formal City Council meetings.
5. Actual expenditures cannot exceed the legally-adopted budget.
6. Appropriations lapse at the end of the year.

7. Budgets are adopted on a basis consistent with generally accepted accounting principles.

4. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

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

| Investment Type | Fair Value | Weighted Average Maturity (Days) |
|--|------------|----------------------------------|
| TexPool | \$453,962 | 30 |
| Portfolio weighted average maturity (days) | \$453,962 | 30 |

The City’s investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940.

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair market values by maintaining a weighted average days to maturity for the operating fund portfolio of less than 360 days. The maximum allowable maturity for any investment is 3 years.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2017, the City had cash deposits of \$16,729,346. The total fair market value of pledged securities held as collateral amounted to \$20,908,637. In addition, \$250,000 of the deposits are covered by FDIC insurance.

Credit Risk. It is the City’s policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City’s investments as of September 30, 2017, were rated as follows:

| Investment Type | Rating | Rating Agency |
|-----------------|--------|-------------------|
| TexPool | AAAm | Standard & Poor’s |

Under provisions of state and local statutes, the City’s investment policies, and provisions of the City’s depository contracts with an area financial institution, the City is authorized to place available deposits and investments in the following:

1. Obligations of the U.S., its agencies and instrumentalities;

2. Certificates of Deposit issued by state and national banks or savings or loan associations domiciled in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation or collateralized in accordance with Section 2256.010, the Texas Government Code, in face amount not to exceed \$250,000;
3. No-load money market mutual funds; and
4. TexPool, Lone Star Investment Pool and MBIA Class.

The City Council has adopted a written investment policy regarding the investments of its funds as defined by the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the Council’s investment policies. The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments were complied with during the year. Investments at year-end are representative of the types of investments maintained by the City during the year.

Receivables

Receivables as of year-end for the government’s individual major funds, nonmajor funds and enterprise funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | Government Funds | | | Enterprise Funds | | | Totals |
|------------------------------------|------------------|----------------|--------------|------------------|--------------|-------------|----------------|
| | General | Electric | Water | Landfill | EMS | Drainage | |
| Taxes | \$684,350.07 | | | | | | \$684,350.07 |
| Due from Other Governments | 1,170,486.53 | \$2,635.44 | \$2,635.44 | | \$66,191.62 | | 1,241,949.03 |
| Customer Accounts | 78,414.08 | 1,108,300.25 | 638,276.55 | \$ 354,785.44 | 396,306.06 | \$ 7,019.46 | 2,583,101.84 |
| Notes | 19,250.49 | | | | | | 19,250.49 |
| Interest | - | - | 39.45 | 30.82 | - | - | 70.27 |
| Gross Receivables | 1,952,501.17 | 1,110,935.69 | 640,951.44 | 354,816.26 | 462,497.68 | 7,019.46 | 4,528,721.70 |
| Less: Allowance for Uncollectibles | (12,360.02) | (9,183.34) | (5,109.15) | (888.91) | (46,857.49) | (56.55) | (74,455.46) |
| Net Total Receivables | \$1,940,141.15 | \$1,101,752.35 | \$635,842.29 | \$353,927.35 | \$415,640.19 | \$6,962.91 | \$4,454,266.24 |

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

General Fund – Deferred Revenues

| | |
|-------------------------------|----------------------|
| Fines Receivable | \$ 58,691.05 |
| Taxes Receivable – Delinquent | <u>91,984.86</u> |
| Total Deferred Revenues | <u>\$ 150,675.91</u> |

Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

Primary Government

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-------------------------|------------------------|---------------------|-------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 4,168,870.00 | \$ 3,414,786.16 | \$ - | \$ 7,583,656.16 |
| Total assets not being depreciated | <u>4,168,870.00</u> | <u>3,414,786.16</u> | <u>-</u> | <u>7,583,656.16</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 7,693,889.98 | 2,034,056.07 | 9,490.66 | 9,718,455.39 |
| Improvements other than buildings | 19,990,294.21 | 741,407.78 | - | 20,731,701.99 |
| Equipment | 7,702,377.23 | 638,678.06 | 1,009,018.96 | 7,332,036.33 |
| Total capital assets being depreciated | <u>35,386,561.42</u> | <u>3,414,141.91</u> | <u>1,018,509.62</u> | <u>37,782,193.71</u> |
| Less accumulated depreciation: | | | | |
| Total accumulated depreciation | <u>20,484,435.07</u> | <u>1,654,039.40</u> | <u>1,018,509.62</u> | <u>21,119,964.85</u> |
| Total capital assets being depreciated, net | <u>14,902,126.35</u> | <u>1,760,102.51</u> | <u>-</u> | <u>16,662,228.86</u> |
| Governmental activities capital assets, net | \$ <u>19,070,996.35</u> | \$ <u>5,174,888.67</u> | \$ <u>-</u> | \$ <u>24,245,885.02</u> |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,098,666.14 | \$ - | \$ - | \$ 1,098,666.14 |
| Total assets not being depreciated | <u>1,098,666.14</u> | <u>-</u> | <u>-</u> | <u>1,098,666.14</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 6,766,180.91 | 229,971.44 | - | 6,996,152.35 |
| Improvements other than buildings | 55,684,531.04 | 790,137.98 | - | 56,474,669.02 |
| Equipment | 9,068,624.56 | 1,755,652.86 | 596,006.54 | 10,228,270.88 |
| Total capital assets being depreciated | <u>71,519,336.51</u> | <u>2,775,762.28</u> | <u>596,006.54</u> | <u>73,699,092.25</u> |
| Less accumulated depreciation: | | | | |
| Total accumulated depreciation | <u>38,821,846.73</u> | <u>2,645,239.39</u> | <u>596,006.54</u> | <u>40,871,079.58</u> |
| Total capital assets being depreciated, net | <u>32,697,489.78</u> | <u>130,522.89</u> | <u>-</u> | <u>32,828,012.67</u> |
| Business-type activities capital assets, net | <u>33,796,155.92</u> | <u>130,522.89</u> | <u>-</u> | <u>33,926,678.81</u> |
| Total City Net Capital Assets | \$ <u>52,867,152.27</u> | \$ <u>5,305,411.56</u> | \$ <u>-</u> | \$ <u>58,172,563.83</u> |

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

| | | |
|---|----|---------------------|
| Governmental activities: | | |
| Administrative | \$ | 121,842.09 |
| Police | | 279,423.46 |
| Fire | | 144,725.35 |
| Streets | | 713,790.68 |
| Parks | | 384,738.90 |
| Health | | 743.33 |
| Engineering | | 8,775.59 |
| Emergency Management | | - |
| | | <hr/> |
| Total depreciation expense – governmental activities | \$ | <u>1,654,039.40</u> |
| Business-type activities: | | |
| Electric | \$ | 313,793.42 |
| Water and Sewer | | 1,192,087.39 |
| Golf | | 173,550.73 |
| Landfill | | 541,457.27 |
| EMS | | 140,630.59 |
| Drainage Utilities | | 283,720.00 |
| | | <hr/> |
| Total depreciation expense – business-type activities | \$ | <u>2,645,239.40</u> |

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2017, is as follows:

| General Fund | DUE TO | DUE FROM |
|----------------------------------|-------------------------|-------------------------|
| Electric – In Lieu of Taxes | | \$84,100 |
| Water – In Lieu of Taxes | | 59,800 |
| Landfill – In Lieu of Taxes | | 25,000 |
| EMS | | 74,040 |
| Drainage | 259 | |
| Emergency Management | | 31,914 |
| Debt Service | | 12,351 |
| Electric Fund | | |
| General Fund – In Lieu of Taxes | 84,100 | |
| Golf | | 819,863 |
| Water & Sewer Fund | | |
| General Fund – In Lieu of Taxes | 59,800 | |
| Golf Fund | | |
| Electric | 819,863 | |
| Landfill | 819,863 | |
| Landfill | | |
| General Fund – In Lieu of Taxes | 25,000 | |
| Golf | | 819,863 |
| EMS | | |
| General Fund | 74,040 | |
| Drainage | | |
| General Fund | | 259 |
| Emergency Management | | |
| General Fund | 31,914 | |
| Debt Service | | |
| General Fund | 12,351 | |
| Capital Projects | | (2,500) |
| Capital Projects | | |
| Debt Service | (2,500) | |
| Total Due To/Due From | <u>\$ 1,924,690</u> | <u>\$ 1,924,690</u> |

The balances of \$819,863 due to the Electric Fund and the Solid Waste Fund represent amounts that were lent to the Golf Course to fund 2011-12 renovations to the Golf Course. The Note’s terms include a 1% annual interest rate and a twenty year amortization period with a 10/1/2034 maturity date.

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and payments between funds are made.

Interfund Transfers:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------------|---------------------|----------------------|
| General Fund | | |
| Electric | \$ 939,900 | |
| Water & Sewer | 530,900 | |
| Landfill | 221,800 | |
| EMS | | \$ 537,160 |
| Emergency Management | | 29,086 |
| Golf | | 652,200 |
| Electric Fund | | |
| General Fund | | 939,900 |
| Water and Sewer Fund | | |
| General Fund | | 530,900 |
| Landfill | | |
| General Fund | | 221,800 |
| EMS | | |
| General Fund | 537,160 | |
| Emergency Management | | |
| General Fund | 29,086 | |
| Golf | | |
| General Fund | 652,200 | |
| Total Transfers | <u>\$ 2,911,046</u> | <u>\$ 2,911,046</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as the debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

In the year ended September 30, 2017, the City made payments from various funds to the General Fund in lieu of taxes. GASB 34 requires that these payments be treated as transfers. Transfers were made from the following funds:

| | |
|-----------------|--------------------|
| Electric | \$939,900 |
| Water and Sewer | 530,900 |
| Landfill | <u>221,800</u> |
| | <u>\$1,692,600</u> |

Capital Leases

The government has acquired certain fixed assets for governmental activities through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2017 were as follows:

| Year Ending <u>September 30,</u> | Governmental <u>Activities</u> | Business-type <u>Activities</u> |
|---|-----------------------------------|------------------------------------|
| 2017 | 392,958 | 841,385 |
| 2018 | 245,469 | 668,701 |
| 2019 | 187,664 | 467,612 |
| 2020 | 70,296 | 9,710 |
| 2021 | <u>70,296</u> | <u> </u> |
| Total minimum lease payments | 966,683 | 1,987,408 |
| Less: amount representing interest | <u>(26,645)</u> | <u>(24,980)</u> |
| Present value of minimum lease payments | <u>\$940,038</u> | <u>\$1,962,428</u> |

Long-term Liabilities

Long-term liability activity for the year ended September 30, 2017, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|-------------------------------------|-------------------------|------------------------|------------------------|-------------------------|------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 3,865,711.50 | \$ - | \$ 512,014.50 | \$ 3,353,697.00 | \$ 530,015.00 |
| Limited tax notes | 1,530,000.00 | 3,530,000.00 | 55,000.00 | 5,005,000.00 | 80,000.00 |
| Total bonds payable | 5,395,711.50 | 3,530,000.00 | 567,014.50 | 8,358,697.00 | 610,015.00 |
| Capitalized leases | 591,124.24 | 348,914.00 | 383,304.86 | 556,733.38 | 381,858.60 |
| Compensated absences | 725,285.92 | 67,152.15 | - | 792,438.07 | - |
| Total governmental activities | <u>\$ 6,712,121.66</u> | <u>\$ 3,946,066.15</u> | <u>\$ 950,319.36</u> | <u>\$ 9,707,868.45</u> | <u>\$ 991,873.60</u> |
| Business-type activities | | | | | |
| General obligation bonds: | | | | | |
| General obligation bonds | \$ 684,288.50 | \$ - | \$ 307,985.50 | \$ 376,303.00 | \$ 314,985.00 |
| Less: Unamortized issuance costs | 11,712.99 | - | 6,303.32 | 5,409.67 | - |
| Add: Unamortized premiums | 3,008.77 | - | 1,002.92 | 2,005.85 | - |
| Less: Deferred amount on refundings | 2,981.92 | - | 993.98 | 1,987.94 | - |
| Total bonds payable | <u>672,602.36</u> | <u>-</u> | <u>301,691.12</u> | <u>370,911.24</u> | <u>314,985.00</u> |
| Revenue Bonds and Notes: | | | | | |
| Revenue bonds | 6,225,000.00 | - | 285,000.00 | \$ 5,940,000.00 | 290,000.00 |
| Less: Unamortized issuance costs | 56,544.40 | - | 3,326.14 | 53,218.26 | - |
| Total revenue bonds & notes | 6,168,455.60 | - | 281,673.86 | 5,886,781.74 | 290,000.00 |
| Capitalized leases | 482,641.72 | 1,534,937.00 | 833,054.94 | 1,184,523.78 | 657,386.77 |
| Compensated absences | 586,645.05 | 52,994.38 | 2,446.51 | 637,192.92 | - |
| Total business-type activities | <u>7,910,344.73</u> | <u>1,587,931.38</u> | <u>1,418,866.43</u> | <u>8,079,409.68</u> | <u>1,262,371.77</u> |
| Long-term liabilities | <u>\$ 14,622,466.39</u> | <u>\$ 5,533,997.53</u> | <u>\$ 2,369,185.79</u> | <u>\$ 17,787,278.13</u> | <u>\$ 2,254,245.37</u> |

Governmental activities long-term liabilities at September 30, 2017, consisted of the following:

| Series | Original Issue | Interest Rate | Debt Outstanding |
|---|-----------------|----------------|------------------------|
| 2010 General Obligation Refunding Bonds | \$ 3,604,164.00 | 1.00% to 3.00% | \$ 788,697.00 |
| 2012 General Obligation Bonds | 3,200,000.00 | 2.88% | 2,565,000.00 |
| 2016 Limited Tax Notes | 1,530,000.00 | 1.39% | 1,475,000.00 |
| 2017 Tax & Limited Pledge Rev CO's | 3,530,000.00 | 3.00% | 3,530,000.00 |
| | | | <u>\$ 8,358,697.00</u> |

Compensated absences are generally liquidated by the General Fund. The funds utilized for the repayment of long-term liabilities for governmental activities are the Debt Service Fund and the General Fund.

Business-type activities long-term liabilities at September 30, 2017, consisted of the following:

| Series | Original Issue | Interest Rate | Debt Outstanding |
|---|-----------------|----------------|------------------------|
| 2010 General Obligation Refunding Bonds | \$ 2,465,836.00 | 1.00% to 3.00% | \$ 121,303.00 |
| 2012 General Obligation Refunding Bonds | 1,485,000.00 | .50% to 1.35% | 255,000.00 |
| 2013 Revenue Bonds | 6,500,000.00 | 3.097% | 5,940,000.00 |
| | | | <u>\$ 6,316,303.00</u> |

The annual debt service requirements to be paid on governmental activities long-term debt outstanding at September 30, 2017, are as follows:

| September 30, | Principal | Interest | Total |
|---------------|------------------------|------------------------|-------------------------|
| 2018 | \$ 610,015.00 | \$ 263,191.52 | \$ 873,206.52 |
| 2019 | 668,682.00 | 207,264.87 | 875,946.87 |
| 2020 | 625,000.00 | 185,643.86 | 810,643.86 |
| 2021 | 640,000.00 | 172,839.52 | 812,839.52 |
| 2022 | 655,000.00 | 159,251.32 | 814,251.32 |
| 2023 - 2027 | 2,050,000.00 | 614,436.09 | 2,664,436.09 |
| 2028 - 2032 | 1,960,000.00 | 343,390.23 | 2,303,390.23 |
| 2033 - 2037 | 1,150,000.00 | 102,887.50 | 1,252,887.50 |
| | <u>\$ 8,358,697.00</u> | <u>\$ 2,048,904.91</u> | <u>\$ 10,407,601.91</u> |

The annual debt service requirements to be paid on business-type activities long-term debt outstanding at September 30, 2017, are as follows:

| September 30, | Principal | Interest | Total |
|---------------|------------------------|------------------------|------------------------|
| 2018 | \$ 604,985.00 | \$ 184,831.50 | \$ 789,816.50 |
| 2019 | 361,318.00 | 172,174.54 | 533,492.54 |
| 2020 | 310,000.00 | 160,889.15 | 470,889.15 |
| 2021 | 320,000.00 | 151,133.60 | 471,133.60 |
| 2022 | 330,000.00 | 141,068.35 | 471,068.35 |
| 2023 - 2027 | 1,810,000.00 | 543,213.81 | 2,353,213.81 |
| 2028 - 2032 | 2,115,000.00 | 239,940.11 | 2,354,940.11 |
| 2033 - 2037 | 465,000.00 | 7,200.53 | 472,200.53 |
| | <u>\$ 6,316,303.00</u> | <u>\$ 1,600,451.59</u> | <u>\$ 7,916,754.59</u> |

Employee Retirement Systems

Texas Municipal Retirement System (TMRS)

Plan Description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined Benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com. All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefits in one of seven payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

| | |
|---|-----------------|
| Employee deposit rate: | 5% |
| Matching ratio (City to Employee): | 2 to 1 |
| Years required for vesting | 5 years |
| Service retirement eligibility (expressed as age/years of service) | 60/5, 0/20 |
| Updated service credit | 100.0 repeating |
| Annuity increase (to retirees) | 50.0% of CPI |

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

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 90 |
| Inactive employees entitled to but not yet receiving benefits | 55 |
| Active employees | <u>164</u> |
| | 309 |

Contributions

The contribution rates for employees in TMRS are either 5% 6%, or 7% of employees gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution plan rates for the City were 9.48% and 9.75% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2017 were \$937,133, 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:

| | |
|-------------------------------|---|
| Valuation Date | December 31st |
| 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% |
| Overall Payroll Growth | 3.00% |
| Salary Increases | 3.50% to 10.50% |
| Investment Rate of Return | 6.75%, net of pension plan investment expense, including inflation |
| Retirement Age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014. |
| Mortality | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. |

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

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

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

Discount Rate

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

| | <u>Increase (Decrease)</u> | | |
|---|---|---|---|
| | <u>Total Pension Liability</u> (a) | <u>Plan Fiduciary Net Position</u> (b) | <u>Net Pension Liability</u> (a) - (b) |
| Balance at 12/31/2015 | 37,645,338 | 33,066,254 | 4,579,084 |
| Changes for the year: | | | |
| Service Cost | 1,004,489 | - | 1,004,489 |
| Interest | 2,528,093 | - | 2,528,093 |
| Changes of benefit term | - | - | - |
| Difference between expected and actual experience | (47,068) | - | (47,068) |
| Change of assumptions | - | - | - |
| Contributions - Employer | - | 843,151 | (843,151) |
| Contributions - Employee | - | 455,757 | (455,757) |
| Net Investment Income | - | 2,235,297 | (2,235,297) |
| Benefit payments, including refunds of employee contributions | (1,388,695) | (1,388,695) | - |
| Administrative expense | - | (25,238) | 25,238 |
| Other changes | - | (1,360) | 1,360 |
| Net Changes | <u>2,096,819</u> | <u>2,118,912</u> | <u>(22,093)</u> |
| Balance at 12/31/2016 | <u>39,742,157</u> | <u>35,185,166</u> | <u>4,556,991</u> |

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

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

| | 1.0 % Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1.0% Increase in Discount Rate (7.75%) |
|-------------------------------|--|-----------------------|---|
| City's Net Pension Liability: | \$9,817,168 | \$4,556,991 | \$196,290 |

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2017 the City recognized pension expenses of \$843,151.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience | \$2,660 | 37,946 |
| Changes in actuarial assumptions | | - |
| Difference between projected and actual investment earnings | | |
| Contributions subsequent to the measurement date | | |
| Total | \$2,660 | 37,946 |

\$508,931 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | Pension Expense Amount |
|-------------------------|------------------------|
| 2017 | \$508,931 |
| 2018 | 508,933 |
| 2019 | 443,618 |
| 2020 | (8,346) |
| 2021 | (1,458) |
| Thereafter | - |
| Total | \$1,451,678 |

Texas Emergency Services Retirement System

Background and Reporting Entity

The Texas Emergency Services Retirement System (TESRS) is an agency of the State of Texas and its financial records comply with state statutes and regulations. The nine-member Board of Trustees, appointed by the Governor, establishes policy for the administration of the Texas Emergency Services Retirement System.

The (TESRS) was created as a standalone agency by the 83rd Legislature via the passage of SB 220, effective September 1, 2013, to assume the functions of the abolished Office of the Fire Fighter's Pension Commissioner. While the agency is new, the System has been in existence since 1977. TESRS, which is under the authority of Title 8 Subtitle H, Chapters 861-865 of the Texas Government Code, provides death and disability benefits to active volunteer fire fighters and first responders, and a pension to members with vested service, as well as to their survivor/beneficiaries. For financial reporting purposes, the State of Texas is considered the primary reporting government. TESRS' financial statements are included in the State's Comprehensive Annual Financial Report. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations which may be of interest are also available at the same link.

Information that is available in the annual financial report is not repeated in the allocation schedules and related notes.

The preparation of the schedules of participating department allocations and collective pension amounts in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amounts during the reporting period. Actual results could differ from those estimates.

Schedule of Participating Department Allocations

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate.

Participating department contributions for the fiscal year ended August 31, 2017 were used for purposes of preparing the allocation schedule. Adjustments were made in the following circumstances, with the treatment detailed below:

- For newly participating departments, lump sum contributions were eliminated and contributions were annualized
- MTES contributions for legacy departments were eliminated
- Interest on contributions was eliminated
- 13th checks, which are passed directly through to the participants, were eliminated

Schedule of Collective Pension Amounts

TESRS has prepared the Schedule of Collective Pension Amounts. The collective pension expense based on TESRS's fiscal year ended August 31, 2017 is shown in the following table:

| | |
|---|--------------------|
| Service cost | \$1,593,479 |
| Interest | 9,468,133 |
| Projected earnings on pension plan investments | (7,339,257) |
| Amortization of differences between projected and actual earnings on plan investments | 840,122 |
| Amortization of changes of assumptions | 269,698 |
| Amortizations of differences between expected and actual experience | 19,590 |
| Pension plan administrative expense | 184,314 |
| Changes in benefit provisions | - |
| | <u>\$5,036,079</u> |

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense in future years as follows:

| Fiscal Year Ended August 31, | Net Deferred Outflows of Resources |
|---------------------------------|---------------------------------------|
| 2018 | \$1,219,410 |
| 2019 | 2,071,764 |
| 2020 | (99,438) |
| 2021 | (487,427) |

Each participating department will need to calculate two additional types of deferred outflows of resources and deferred inflows of resources, which are participating department specific amounts. These amounts relate to differences between actual contributions made by a participating department and their proportionate share of total contributions calculated based on the allocation percentage.

The participating department's proportionate share of the collective pension expense for its fiscal year ended between September 1, 2017 and August 31, 2018 is equal to the collective pension expense multiplied by the participating department's allocation percentage for TESRS's fiscal year ended August 31, 2017 as shown in the schedule of participating department allocations. The City's allocation percentage is 0.716%.

Contributions for fiscal year 2017 were \$34,640.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates in the Texas Municipal League's General Liability Fund. In addition, the City participates in the Texas Municipal League's Workers' Compensation Fund to insure the City for workers' compensation claims. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The liability for claims and judgments is only reported in the government-wide financial statements because it is not expected to be liquidated with expendable available financial resources. However, none are reported at September 30, 2017.

Contingent Liabilities

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

Closure and Post-closure Care Costs

State and federal laws and regulations require that the City of Fredericksburg place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability must be recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill capacity used to date. Estimated liability for landfill closure and post-closure care costs has a balance of \$2,644,824 as of September 30, 2017, which is based on 86.15% usage of current open cells and 35.01% *usage of the entire landfill*. The landfill is expected to be filled to capacity in 2043. The estimated total current cost of the landfill closure and post-closure care is based on a third party completing the actual work. The amount includes costs for equipment, facilities, and services required to close, monitor, and maintain the landfill as if purchased at September 30, 2017. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

Governmental Accounting Standards Board Statement #54

Beginning with fiscal year ended September 30, 2011, the Statement of Net Assets and Statement of Activities are presented in accordance with Governmental Accounting Standards Board Statement #54.

Prior Period Adjustment

A prior period adjustment was recorded to remove prior year interfund balances in the Internal Service Fund.

Subsequent Events Date Cutoff

The date for subsequent events cutoff is February 20, 2018.



REQUIRED SUPPLEMENTARY INFORMATION

City of Fredericksburg, Texas
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2017

| | Budgeted Amounts | | GAAP Basis | Variance With |
|--|-------------------------|--------------------------|-------------------------|---|
| | Original | Final | Actual | Final Budget Positive or (Negative) |
| Revenues | | | | |
| General Property Taxes | \$ 3,126,500.00 | \$ 3,126,500.00 | \$ 3,313,704.91 | \$ 187,204.91 |
| General Sales and Use Taxes | 5,450,000.00 | 5,450,000.00 | 5,529,686.15 | 79,686.15 |
| Hotel Occupancy Taxes | 2,878,000.00 | 2,878,000.00 | 2,951,898.79 | 73,898.79 |
| Other Taxes | 702,500.00 | 702,500.00 | 765,652.33 | 63,152.33 |
| Licenses and Permits | 208,500.00 | 208,500.00 | 250,047.88 | 41,547.88 |
| Charges for Services | 3,500.00 | 3,500.00 | 3,709.22 | 209.22 |
| Fines | 86,450.00 | 86,450.00 | 85,523.79 | (926.21) |
| Pavilion and Camping Fees | 428,500.00 | 428,500.00 | 507,310.00 | 78,810.00 |
| Rentals | 19,918.00 | 19,918.00 | 21,105.52 | 1,187.52 |
| Intergovernmental Revenue | 502,100.00 | 502,100.00 | 548,502.54 | 46,402.54 |
| Grants | 42,800.00 | 68,862.00 | 71,397.93 | 2,535.93 |
| Investment Earnings | 22,465.00 | 22,465.00 | 53,007.37 | 30,542.37 |
| Other Revenues | 465,825.00 | 533,160.00 | 557,431.87 | 24,271.87 |
| Total Revenues | <u>\$ 13,937,058.00</u> | <u>\$ 14,030,455.00</u> | <u>\$ 14,658,978.30</u> | <u>\$ 628,523.30</u> |
| Expenditures | | | | |
| Municipal Court | \$ 177,440.00 | \$ 177,440.00 | \$ 158,282.82 | \$ 19,157.18 |
| Engineering | 224,758.00 | 224,758.00 | 211,802.94 | 12,955.06 |
| Administration | 1,108,146.00 | 1,108,146.00 | 1,125,512.17 | (17,366.17) |
| Tourism | 2,870,539.00 | 3,103,339.00 | 2,922,306.12 | 181,032.88 |
| Police | 4,368,123.00 | 4,368,123.00 | 4,173,156.59 | 194,966.41 |
| Fire | 804,977.00 | 850,923.00 | 954,842.09 | (103,919.09) |
| Emergency Management | 155,209.00 | 109,263.00 | 91,102.55 | 18,160.45 |
| Streets | 1,790,942.00 | 1,790,942.00 | 1,704,695.59 | 86,246.41 |
| Parks | 1,484,544.00 | 1,484,544.00 | 1,448,274.40 | 36,269.60 |
| Health | 193,085.00 | 193,085.00 | 184,286.10 | 8,798.90 |
| Food and Wine Festival | 187,700.00 | 187,700.00 | 185,191.65 | 2,508.35 |
| Development Services | 517,723.00 | 517,723.00 | 504,407.18 | 13,315.82 |
| Debt Service | | | | |
| Principal | 385,800.00 | 385,800.00 | 383,304.86 | 2,495.14 |
| Interest | 17,000.00 | 17,000.00 | 9,652.76 | 7,347.24 |
| Capital Outlays | 837,505.00 | 1,160,590.00 | 1,509,633.47 | (349,043.47) |
| Total Expenditures | <u>\$ 14,721,293.00</u> | <u>\$ 15,277,178.00</u> | <u>\$ 15,196,365.53</u> | <u>\$ 80,812.47</u> |
| Excess of Revenues Over (Under) Expenditures | <u>\$ (784,235.00)</u> | <u>\$ (1,246,723.00)</u> | <u>\$ (537,387.23)</u> | <u>\$ 709,335.77</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Real and Personal Property | \$ 58,500.00 | \$ 58,500.00 | \$ 135,417.01 | \$ 252,417.01 |
| Transfers in | 1,803,640.00 | 1,803,640.00 | 1,692,600.00 | (111,040.00) |
| Transfers out | 872,200.00 | 1,324,400.00 | 1,189,359.93 | 135,040.07 |
| Total Other Financing Sources (Uses) | <u>\$ 989,940.00</u> | <u>\$ 537,740.00</u> | <u>\$ 987,571.08</u> | <u>\$ 355,250.94</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | <u>\$ 205,705.00</u> | <u>\$ (708,983.00)</u> | <u>\$ 450,183.85</u> | <u>\$ 1,064,586.71</u> |
| Fund Balances - Beginning | 2,645,415.00 | (2,045,243.00) | 6,695,081.51 | 8,740,324.51 |
| Fund Balances - Ending | <u>\$ 2,851,120.00</u> | <u>\$ (2,754,226.00)</u> | <u>\$ 7,145,265.36</u> | <u>\$ 9,899,491.36</u> |

The notes to the Financial Statements are an integral part of this statement.



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