

CITY OF FREDERICKSBURG, TEXAS

ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2018

abip

CPAs | ADVISORS

CLIENT **FOCUSED.** RELATIONSHIP **DRIVEN.**



CITY OF FREDERICKSBURG, TEXAS

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Fredericksburg, Texas (the City) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Fredericksburg, Texas, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance, GASB No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of changes in other postemployment benefits (OPEB) liability and related ratios, and related schedules of contributions for net pensions and OPEB liabilities 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.

ABIP, PC

San Antonio, Texas
May 6, 2019

CITY OF FREDERICKSBURG, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Fiscal year ended September 30, 2018

As management of the City of Fredericksburg, Texas, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ❖ The assets of the City of Fredericksburg exceeded its liabilities as of September 30, 2018 by \$56,190,943 (net position). Of this amount, \$6,704,597 (unrestricted net position) 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 position increased by \$3,062,159 before the restatement.
- ❖ As of the close of the current fiscal year, the City of Fredericksburg's governmental funds reported combined fund balances of \$7,749,252 of which \$6,364,125 was unassigned and is available for spending at the City's discretion.
- ❖ As of September 30, 2018, unreserved fund balance for the General Fund was \$6,364,125 or 38% of the current year's total General Fund expenditures of \$16,567,743. The City's fund balance policy is to carry a 25% reserve of the General Fund's expenditures. At the end of the fiscal year the City exceeded this policy by \$2,222,219.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of 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.

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 statements of a private-sector business.

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

The **statement of activities** presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position 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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned and unused compensation absences).

Both 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 costs 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, waste water, storm water drainage, solid waste, emergency medical services (EMS), and golf operations. The government-wide financial statements can be found on pages 12-15 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Fredericksburg, 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.

The **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 of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information 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 statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Beginning on page 16 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.

The **proprietary funds** provide the same type of information as the government-wide financial statements only in more detail. The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in government-wide financial statements. The City uses the 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. The internal service fund is reported in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 20-29 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 33-64 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the budgetary comparison schedule for the general fund and the schedules of changes in net pension liability and related ratios and schedule of contributions for TMRS and TESRS and changes in other postemployment benefit (OPEB) liability and related ratios and schedule of contributions for OPEB. Required supplementary information can be found on pages 67-75 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the City of Fredericksburg, assets exceeded liabilities by \$56,190,943 as of September 30, 2018, compared to \$51,569,934 as of September 30, 2017.

NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets:						
Current and other assets	\$ 9,143,171	\$ 8,859,195	\$ 17,304,087	\$ 15,350,430	\$ 26,447,258	\$ 24,209,625
Capital assets	23,877,805	24,245,885	33,680,787	33,926,679	57,558,592	58,172,564
Total assets	33,020,976	33,105,080	50,984,874	49,277,109	84,005,850	82,382,189
Deferred outflows of resources	693,220	9,505	534,173	(6,845)	1,227,393	2,660
Liabilities:						
Current liabilities	1,173,575	1,597,419	4,498,516	5,374,981	5,672,091	6,972,400
Net pension liability	1,459,855	3,422,112	1,035,196	1,134,879	2,495,051	4,556,991
OPEB liability	303,315	-	241,237	-	544,552	-
Noncurrent liabilities	9,307,771	9,707,868	9,729,426	9,539,710	19,037,197	19,247,578
Total liabilities	12,244,516	14,727,399	15,504,375	16,049,570	27,748,891	30,776,969
Deferred inflows of resources	724,506	183,176	568,903	(145,230)	1,293,409	37,946
Net Position:						
Net investment in capital assets	15,583,126	15,330,455	27,333,064	26,485,171	42,916,190	41,815,626
Restricted for long-term debt	235,791	52,606	48,920	36,894	284,711	89,500
Restricted for capital projects	-	335,147	5,301,442	3,685,278	5,301,442	4,020,425
Restricted for other	984,003	-	-	-	984,003	-
Unrestricted	3,942,254	2,485,802	2,762,343	3,158,581	6,704,597	5,644,383
Total net position	\$ 20,745,174	\$ 18,204,010	\$ 35,445,769	\$ 33,365,924	\$ 56,190,943	\$ 51,569,934

By far, the largest portion of the City's net position (76.4%) reflects its investments in capital assets (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 resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net position \$6,704,597, may be used to meet the government's ongoing obligation to citizens and creditors.

Analysis of the City's Operations

The following table provides a summary of the City's operations for the year ended September 30, 2018. Governmental activities increased the City's net position by \$673,549, accounting for 22% of the total growth in net position. Business-type activities increased the City's net position by \$2,388,610, accounting for 78% of total growth in net position.

STATEMENT OF ACTIVITIES

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for services	\$ 1,340,459	\$ 1,139,381	\$ 24,088,770	\$ 22,349,751	\$ 25,429,229	\$ 23,489,132
Operating grants and contributions	901,681	1,388,757	-	-	901,681	1,388,757
General Revenues:						
Property taxes	4,134,724	3,872,168	-	51,586	4,134,724	3,923,754
Sales taxes	5,987,378	5,529,686	-	-	5,987,378	5,529,686
Hotel occupancy taxes	3,242,427	2,951,899	-	-	3,242,427	2,951,899
Other taxes	805,675	765,652	-	-	805,675	765,652
Miscellaneous	204,049	219,952	142,849	1,276,925	346,898	1,496,877
Investment earnings	118,613	53,687	155,627	64,543	274,240	118,230
Total revenues	16,735,006	15,921,182	24,387,246	23,742,805	41,122,252	39,663,987
Expenses:						
Administration	1,765,997	1,384,733	-	-	1,765,997	1,384,733
Police	4,979,794	4,654,035	-	-	4,979,794	4,654,035
Fire	1,496,734	1,143,275	-	-	1,496,734	1,143,275
Streets	2,255,601	2,506,890	-	-	2,255,601	2,506,890
Parks and recreation	2,010,831	2,002,652	-	-	2,010,831	2,002,652
Tourism	3,041,300	2,923,008	-	-	3,041,300	2,923,008
Health	198,269	195,040	-	-	198,269	195,040
Food and wine festival	151,916	185,192	-	-	151,916	185,192
Emergency management	165,588	93,520	-	-	165,588	93,520
Development services	660,144	521,749	-	-	660,144	521,749
Municipal court	179,186	164,388	-	-	179,186	164,388
Engineering	233,895	231,593	-	-	233,895	231,593
Electric	-	-	11,006,786	10,682,680	11,006,786	10,682,680
Water and sewer	-	-	4,799,785	4,411,696	4,799,785	4,411,696
Golf	-	-	703,690	1,548,705	703,690	1,548,705
Landfill	-	-	2,601,572	2,283,266	2,601,572	2,283,266
EMS	-	-	2,358,974	2,296,081	2,358,974	2,296,081
Drainage utilities	-	-	336,069	290,826	336,069	290,826
Total expenses	17,139,255	16,006,075	21,806,876	21,513,254	38,946,131	37,519,329
Increase (decrease) in net position before transfers	(404,249)	(84,893)	2,580,370	2,229,551	2,176,121	2,144,658
Gain on retirement of assets	729,321	135,417	156,717	177,346	886,038	312,763
Transfers	348,477	503,240	(348,477)	(503,240)	-	-
Change in net position	673,549	553,764	2,388,610	1,903,657	3,062,159	2,457,421
Net position:						
Net position - beginning	18,204,009	17,722,752	33,365,924	31,462,267	51,569,933	49,185,019
Prior period adjustment	1,867,616	(72,507)	(308,765)	-	1,558,851	(72,507)
Net position - ending	\$ 20,745,174	\$ 18,204,009	\$ 35,445,769	\$ 33,365,924	\$ 56,190,943	\$ 51,569,933

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, 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 position increased by \$3,062,159 during the current fiscal year before restatements.

FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS

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

Governmental Funds

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,749,252. Refer to page 16 of this report for a more detailed presentation of governmental fund balances.

The general fund is the primary operating fund of the City. The total fund balance of the general fund was \$7,348,128 of which \$6,364,125 is unassigned. Unassigned fund balance are the amounts available for any purpose.

The fund balance of the City's general fund increased by \$572,948 during the current fiscal year. The budget estimated a net change in fund balance of \$59,348 a positive variance of \$513,600.

Proprietary Funds

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

Unrestricted net position of the City's enterprise funds at the end of the year amounted to \$2,762,343. Net position of the City's enterprise funds increased by \$2,388,610 in the current year before the restatement. 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, 2018, amounts to \$57,558,592 (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 purchases	\$	14,350
Police vehicles		276,743
Animal shelter construction		25,904
Fire department brush truck and SCBA equipment		17,008
Street department equipment		299,595
Street improvements / sidewalks		615,964
Cross Mountain Park facility		139,795
Park improvements		29,168
Engineering improvements		10,981
Emergency management improvemetns		5,650
Electric machine and equipment		43,551
Electric system improvements		155,071
Waste water treatment plant office /lab /workshop		115,462
Water department machinery/ equipment		235,993
Water /wastewater system improvements		1,658,929
Stone Ridge Water tank site		28,282
Solid waste department machinery /equipment		23,076
EMS ambulance remount		282,748
Totals	\$	<u>3,978,270</u>

Additional information on the City's capital assets can be found on pages 43-45 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total outstanding bonded debt of \$13,460,000. The entire amount is debt backed in full faith and credit of the City.

The City carries bond ratings from Standards 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 on pages 48-50 of this report.

PROPERTY TAXES

General Fund Property Tax Rate

In the budget for fiscal year-end September 30, 2018, the adopted property tax rate decreased from \$.2400 to \$.2256 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	Percentage of Current Collections	Percentage of Collections
2018	0.2256	0.1627	0.0629	\$ 4,255,938	93.94%	99.20%
2017	0.2400	0.2025	0.0375	3,893,409	92.87%	99.71%
2016	0.2313	0.1761	0.0552	3,545,858	92.65%	99.79%
2015	0.2482	0.1992	0.0490	3,495,943	93.40%	99.85%
2014	0.2600	0.1879	0.0721	3,439,885	92.52%	99.87%
2013	0.2647	0.1940	0.0707	3,420,570	92.03%	99.87%
2012	0.2444	0.1917	0.0527	3,172,700	92.20%	99.85%
2011	0.2365	0.1794	0.0571	3,059,441	91.92%	99.87%
2010	0.2319	0.4130	0.0906	3,040,062	90.48%	99.87%
2009	0.2350	0.1608	0.0742	2,996,658	91.52%	99.92%

CITY OF FREDERICKSBURG, TEXAS

BUDGET COMPARISON

Fiscal years 2019 and 2018

	Budget Year		Increase (Decrease)	Increase (Decrease)
	2018-2019	2017-2018		
Revenues:				
General fund	\$ 18,090,508	\$ 16,675,738	\$ 1,414,770	8.48%
Electric	12,069,600	11,530,070	539,530	4.68%
Water and sewer	26,841,560	6,389,010	20,452,550	320.12%
Golf	145,938	1,294,220	(1,148,282)	-88.72%
Landfill	2,679,675	2,651,775	27,900	1.05%
EMS	2,725,610	2,542,347	183,263	7.21%
Drainage	524,410	438,900	85,510	19.48%
Emergency management	186,024	170,980	15,044	8.80%
Debt service	697,550	881,000	(183,450)	-20.82%
Internal Service fund	<u>1,878,976</u>	<u>1,895,820</u>	<u>(16,844)</u>	-0.89%
Total revenues	<u>65,839,851</u>	<u>44,469,860</u>	<u>21,369,991</u>	48.05%
Expenditures:				
General Fund:				
Administrative	5,391,093	5,300,475	90,618	1.71%
Police	5,218,180	4,926,852	291,328	5.91%
Fire	1,386,836	1,273,985	112,851	8.86%
Street	2,680,114	2,502,523	177,591	7.10%
Park	2,442,369	1,780,685	661,684	37.16%
Development services	750,117	666,709	83,408	12.51%
Health	215,247	208,809	6,438	3.08%
Municipal court	181,037	186,786	(5,749)	-3.08%
Engineering	263,843	248,849	14,994	6.03%
Food and wine festival	<u>181,040</u>	<u>193,900</u>	<u>(12,860)</u>	-6.63%
Total general fund expenditures	<u>18,709,876</u>	<u>17,289,573</u>	<u>1,420,303</u>	8.21%
Electric	12,597,804	11,519,364	1,078,440	9.36%
Water and sewer	28,019,453	9,112,161	18,907,292	207.50%
Golf	145,938	1,494,216	(1,348,278)	-90.23%
Landfill	2,783,118	2,298,842	484,276	21.07%
EMS	2,725,610	2,542,347	183,263	7.21%
Drainage	477,607	344,000	133,607	38.84%
Emergency management	187,523	170,897	16,626	9.73%
Debt service	876,100	873,500	2,600	0.30%
Internal Service fund	<u>2,069,000</u>	<u>1,997,200</u>	<u>71,800</u>	3.60%
Total expenditures	<u>68,592,029</u>	<u>47,642,100</u>	<u>20,949,929</u>	43.97%
Budgeted revenues in excess (deficiency) of expenditures	<u>\$ (2,752,178)</u>	<u>\$ (3,172,240)</u>	<u>\$ 420,062</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 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 78264 or call (830) 997-7521.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the Government Accounting Standards Board (GASB).

The sets of statements include:

- Government–Wide Financial Statements
- Fund Financial Statements:
 - Governmental Funds
 - Proprietary Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF NET POSITION

September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Busines-Type Activities	Total	Fredericksburg Convention and Visitor's Bureau
Assets:				
Cash and cash equivalents	\$ 6,933,228	\$ 11,813,013	\$ 18,746,241	\$ 873,284
Investments - current	-	650,000	650,000	-
Tax receivables (net of allowances for uncollectibles):	827,290	-	827,290	-
Internal balances	224,500	1,548,119	1,772,619	-
Intergovernmental receivable	1,085,548	30,333	1,115,881	-
Due from others	72,605	2,289,962	2,362,567	-
Inventories	-	972,660	972,660	-
Prepaid expenses	-	-	-	66,110
Property and equipment (net of depreciation):				
Land	7,583,656	1,126,948	8,710,604	-
Buildings	4,804,354	1,813,439	6,617,793	-
Improvements	9,808,134	6,562,590	16,370,724	11,561
Machinery and equipment	1,681,661	24,177,810	25,859,471	51,111
Total assets	33,020,976	50,984,874	84,005,850	1,002,066
Deferred Outflows of Resources:				
Deferred outflow related to TMRS pension	642,440	510,951	1,153,391	-
Deferred outflow related to TESRS pension	21,584	-	21,584	-
Deferred outflow related to TMRS OPEB	29,196	23,222	52,418	-
Total deferred outflows of resources	693,220	534,173	1,227,393	-
Total assets and deferred outflows of resources	\$ 33,714,196	\$ 51,519,047	\$ 85,233,243	\$ 1,002,066

	Primary Government			Component Unit
	Governmental Activities	Busines-Type Activities	Total	Fredericksburg Convention and Visitor's Bureau
Liabilities and Net Position:				
Liabilities:				
Accounts payable	\$ 539,887	\$ 1,755,732	\$ 2,295,619	\$ 53,696
Accrued payroll	223,950	205,224	429,174	29,493
Intergovernmental payable	77,253	124,175	201,428	-
Accrued interest payable	74,263	28,719	102,982	-
Internal balances	-	1,772,619	1,772,619	-
Unearned revenues	258,222	-	258,222	-
Other current liabilities	-	612,047	612,047	-
Net pension liability - TMRS	1,301,590	1,035,196	2,336,786	-
Net pension liability - TESRS	158,265	-	158,265	-
Total OPEB liability	303,315	241,237	544,552	-
Noncurrent liabilities:				
Due within one year	1,212,192	507,120	1,719,312	-
Due in more than one year	<u>8,095,579</u>	<u>9,222,306</u>	<u>17,317,885</u>	<u>-</u>
Total liabilities	<u>12,244,516</u>	<u>15,504,375</u>	<u>27,748,891</u>	<u>83,189</u>
Deferred Inflows of Resources:				
Deferred inflow related to TMRS pension	715,303	568,903	1,284,206	-
Deferred inflow related to TESRS	<u>9,203</u>	<u>-</u>	<u>9,203</u>	<u>-</u>
Total deferred inflows of resources	<u>724,506</u>	<u>568,903</u>	<u>1,293,409</u>	<u>-</u>
Net Position:				
Net investment in capital assets	15,583,126	27,333,064	42,916,190	-
Restricted for:				
Long term debt	235,791	48,920	284,711	-
Capital projects	-	5,301,442	5,301,442	-
Tourism	967,077	-	967,077	-
Court technology	16,926	-	16,926	-
Unrestricted	<u>3,942,254</u>	<u>2,762,343</u>	<u>6,704,597</u>	<u>918,877</u>
Total net position	<u>20,745,174</u>	<u>35,445,769</u>	<u>56,190,943</u>	<u>918,877</u>
Total liabilities, deferred inflows of resources and net position				
	<u>\$ 33,714,196</u>	<u>\$ 51,519,047</u>	<u>\$ 85,233,243</u>	<u>\$ 1,002,066</u>

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF ACTIVITIES

For the year ended September 30, 2018

Functions / Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
Municipal court	\$ 179,186	\$ -	\$ -
Administration	1,765,997	19,945	-
Tourism	3,041,300	-	42,500
Engineering	233,895	-	-
Police	4,979,794	93,076	104,227
Fire	1,496,734	-	537,616
Emergency management	165,588	-	167,988
Streets	2,255,601	-	-
Parks	2,010,831	746,726	-
Health	198,269	106,285	41,950
Food and wine festival	151,916	155,000	7,400
Development services	660,144	219,427	-
Total government activities	<u>17,139,255</u>	<u>1,340,459</u>	<u>901,681</u>
Business-Type Activities:			
Electric	11,006,786	12,092,233	-
Water	4,799,785	7,125,967	-
Golf	703,690	192,459	-
Landfill	2,601,572	2,744,827	-
EMS	2,358,974	1,776,109	-
Drainage	336,069	157,175	-
Total business-type activities	<u>21,806,876</u>	<u>24,088,770</u>	<u>-</u>
Total primary government	<u>\$ 38,946,131</u>	<u>\$ 25,429,229</u>	<u>\$ 901,681</u>
Component Unit:			
Fredericksburg Convention and Visitor's Bureau	<u>\$ 2,488,210</u>		

The accompanying notes are an integral part of these financial statements.

	Changes in Net Position			Component Unit Fredericksburg Convention and Visitor's Bureau
	Primary Government			
	Governmental Activities	Business-Type Activities	Total	
	\$ (179,186)	\$ -	\$ (179,186)	
	(1,746,052)	-	(1,746,052)	
	(2,998,800)	-	(2,998,800)	
	(233,895)	-	(233,895)	
	(4,782,491)	-	(4,782,491)	
	(959,118)	-	(959,118)	
	2,400	-	2,400	
	(2,255,601)	-	(2,255,601)	
	(1,264,105)	-	(1,264,105)	
	(50,034)	-	(50,034)	
	10,484	-	10,484	
	(440,717)	-	(440,717)	
	<u>(14,897,115)</u>	<u>-</u>	<u>(14,897,115)</u>	
	-	1,085,447	1,085,447	
	-	2,326,182	2,326,182	
	-	(511,231)	(511,231)	
	-	143,255	143,255	
	-	(582,865)	(582,865)	
	-	(178,894)	(178,894)	
	<u>-</u>	<u>2,281,894</u>	<u>2,281,894</u>	
	<u>(14,897,115)</u>	<u>2,281,894</u>	<u>(12,615,221)</u>	
				\$ <u>(2,488,210)</u>
General Revenues:				
Taxes:				
Property taxes	4,134,724	-	4,134,724	-
Sales tax	5,987,378	-	5,987,378	-
Hotel occupancy tax	3,242,427	-	3,242,427	-
Other taxes	805,675	-	805,675	-
Miscellaneous revenue	204,049	142,849	346,898	2,675,181
Investment earnings	118,613	155,627	274,240	-
Transfers in (out)	348,477	(348,477)	-	-
Gain on retirement of capital assets	<u>729,321</u>	<u>156,717</u>	<u>886,038</u>	<u>-</u>
Total general revenues	<u>15,570,664</u>	<u>106,716</u>	<u>14,170,204</u>	<u>2,675,181</u>
Change in net position	673,549	2,388,610	3,062,159	186,971
Net position - beginning of year	18,204,009	33,365,924	51,569,933	701,749
Prior period adjustment	<u>1,867,616</u>	<u>(308,765)</u>	<u>1,558,851</u>	<u>30,157</u>
Net position - end of year	<u>\$ 20,745,174</u>	<u>\$ 35,445,769</u>	<u>\$ 56,190,943</u>	<u>\$ 918,877</u>

CITY OF FREDERICKSBURG, TEXAS

BALANCE SHEET – GOVERNMENTAL FUNDS

September 30, 2018

	Major Funds	Nonmajor Funds		Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
Assets:				
Cash and cash equivalents	\$ 6,262,598	\$ 162,833	\$ 256,588	\$ 6,682,019
Taxes receivable (net of allowances for uncollectible)	827,290	-	-	827,290
Receivable (net of allowances)	72,605	-	-	72,605
Intergovernmental receivables	1,085,548	-	-	1,085,548
Due from other funds	243,055	2,500	-	245,555
Total assets	<u>\$ 8,491,096</u>	<u>\$ 165,333</u>	<u>\$ 256,588</u>	<u>\$ 8,913,017</u>
Liabilities:				
Accounts payable	\$ 483,106	\$ -	\$ -	\$ 483,106
Wages and salaries payable	223,950	-	-	223,950
Compensated absences	16,634	-	-	16,634
Intergovernmental payable	77,253	-	-	77,253
Due to other funds	259	-	20,797	21,056
Deferred revenues	258,222	-	-	258,222
Total liabilities	<u>1,059,424</u>	<u>-</u>	<u>20,797</u>	<u>1,080,221</u>
Deferred inflows of resources:				
Unearned revenue - property taxes	<u>83,544</u>	<u>-</u>	<u>-</u>	<u>83,544</u>
Fund balances:				
Reserved for:				
Debt service	-	-	235,791	235,791
Capital improvements	-	165,333	-	165,333
Court technology	16,926	-	-	16,926
Tourism	967,077	-	-	967,077
Unassigned	<u>6,364,125</u>	<u>-</u>	<u>-</u>	<u>6,364,125</u>
Total fund balances	<u>7,348,128</u>	<u>165,333</u>	<u>235,791</u>	<u>7,749,252</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,491,096</u>	<u>\$ 165,333</u>	<u>\$ 256,588</u>	<u>\$ 8,913,017</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FREDERICKSBURG, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION**

September 30, 2018

TOTAL FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 7,749,252

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

The City uses an internal service fund for health self insurance.
The assets and liabilities are included in the governmental activities. 194,428

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 23,877,805

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 83,544

Accrued vacation leave payable is not due and payable in the current period and, therefore not reported in the funds. (831,124)

Long-term liabilities, which includes certificates of obligation bonds, general obligation bonds, premiums and capital lease payable, are not due and payable in the current period and, therefore, not reported in the funds. (8,460,012)

Net pension liability, other postemployment benefit liability, and related deferred inflows and outflows of resources are not due and payable in the current period and, therefore, not reported in the funds. (1,794,456)

Accrued interest payable on general obligation bonds are not due and payable in the current period and, therefore, not reported in the funds. (74,263)

NET POSITION OF GOVERNMENTAL ACTIVITIES -
STATEMENT OF NET POSITION \$ 20,745,174

The accompanying notes are an integral part of these financial statements.

CITY OF FREDERICKSBURG, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**

Fiscal year ended September 30, 2018

	Major Funds	Nonmajor Funds		Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
Revenues:				
General property taxes	\$ 3,047,913	\$ -	\$ 1,071,122	\$ 4,119,035
General sales and use taxes	5,987,378	-	-	5,987,378
Hotel occupancy taxes	3,242,427	-	-	3,242,427
Other taxes	488,920	-	-	488,920
Franchise fees	316,755	-	-	316,755
License and permits	219,427	-	-	219,427
Fines	93,076	-	-	93,076
Pavilion and camping fees	588,956	-	-	588,956
Rentals	112,445	-	-	112,445
Intergovernmental revenue	609,566	-	-	609,566
Grants	104,227	-	-	104,227
Investment earnings	110,289	115	320	110,724
Other revenues	718,491	-	-	718,491
Total revenues	<u>15,639,870</u>	<u>115</u>	<u>1,071,442</u>	<u>16,711,427</u>
Expenditures:				
Current:				
Municipal court	178,779	-	-	178,779
Administration	1,383,672	-	-	1,383,672
Tourism	3,040,761	-	-	3,040,761
Police	4,605,105	-	-	4,605,105
Fire	1,118,086	-	-	1,118,086
Emergency management	162,809	-	-	162,809
Streets	1,469,324	-	-	1,469,324
Parks and recreation	1,592,594	-	-	1,592,594
Health	195,011	-	-	195,011
Food and wine festival	151,916	-	-	151,916
Development services	653,095	-	-	653,095
Engineering	217,400	-	-	217,400
Debt service:				
Principal	381,859	-	610,015	991,874
Interest	8,078	-	263,191	271,269
Capital outlays	1,409,254	25,904	-	1,435,158
Total expenditures	<u>16,567,743</u>	<u>25,904</u>	<u>873,206</u>	<u>17,466,853</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(927,873)</u>	<u>(25,789)</u>	<u>198,236</u>	<u>(755,426)</u>
Other Financing Sources (uses):				
Sale of real and personal property	726,104	-	-	726,104
Transfers in	1,785,600	-	-	1,785,600
Transfers out	(1,437,123)	-	-	(1,437,123)
Capital leases	426,240	-	-	426,240
Total other financing sources (uses)	<u>1,500,821</u>	<u>-</u>	<u>-</u>	<u>1,500,821</u>
Net change in fund balances	572,948	(25,789)	198,236	745,395
Fund balances at beginning of year	<u>6,775,180</u>	<u>191,122</u>	<u>37,555</u>	<u>7,003,857</u>
Fund balances at end of year	<u>\$ 7,348,128</u>	<u>\$ 165,333</u>	<u>\$ 235,791</u>	<u>\$ 7,749,252</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FREDERICKSBURG, TEXAS

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

Fiscal year ended September 30, 2018

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 745,395

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

The City uses an internal service fund to charge the cost of health insurance. The net income (loss) of this fund is consolidated into governmental activities. (189,298)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$1,803,238) exceeded capital outlay (\$1,435,158). (368,080)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 15,688

The repayment and issuance of the principal of long-term debt consumes the current financial resources of governmental funds but has no effect on net position. 565,634

The amortization of bond premium and losses on refunding do not require the use of current financial resources, and therefore, are not reported in the funds. 9,185

Change in net pension liability, other postemployment benefits liability, and related deferred inflows and outflows do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (66,289)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (38,686)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 673,549

The accompanying notes are an integral part of these financial statements.

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

September 30, 2018

	Business-Type Activities - Enterprise Funds		
	Electric	Water	Golf
Current Assets:			
Cash and cash equivalents	\$ 2,118,356	\$ 7,569,095	\$ (97,500)
Investments	-	400,000	-
Due from other funds	773,930	-	-
Intergovernmental receivable	2,332	2,332	19
Accounts receivable (net of allowance)	1,056,429	577,571	11,201
Inventory	<u>735,092</u>	<u>237,568</u>	<u>-</u>
Total current assets	<u>4,686,139</u>	<u>8,786,566</u>	<u>(86,280)</u>
Noncurrent Assets:			
Property and equipment:			
Land	89,475	522,525	305,399
Buildings	2,039,886	2,801,241	1,753,473
Improvements	-	-	3,206,159
Machinery and equipment	10,053,452	37,844,229	634,608
Less: accumulated depreciation	<u>(9,924,128)</u>	<u>(16,730,347)</u>	<u>(2,831,069)</u>
Total noncurrent assets	<u>2,258,685</u>	<u>24,437,648</u>	<u>3,068,570</u>
Deferred Outflow of Resources:			
Deferred outflow - TMRS pension	111,879	145,327	27,681
Deferred outflow - OPEB	<u>5,085</u>	<u>6,605</u>	<u>1,258</u>
Total deferred outflow of resources	<u>116,964</u>	<u>151,932</u>	<u>28,939</u>
 Total assets and deferred outflow of resources	 <u>\$ 7,061,788</u>	 <u>\$ 33,376,146</u>	 <u>\$ 3,011,229</u>

The accompanying notes are an integral part of these financial statements.

Business-Type Activities - Enterprise Funds				Governmental Activities
Landfill	EMS	Drainage	Enterprise Fund Total	Internal Service Fund
\$ 1,950,249	\$ 82,940	\$ 189,873	\$ 11,813,013	\$ 251,209
250,000	-	-	650,000	-
773,930	-	259	1,548,119	-
-	25,650	-	30,333	-
226,302	411,438	7,021	2,289,962	-
-	-	-	972,660	-
<u>3,200,481</u>	<u>520,028</u>	<u>197,153</u>	<u>17,304,087</u>	<u>251,209</u>
209,549	-	-	1,126,948	-
107,770	368,666	-	7,071,036	-
5,274,854	9,023	5,187,959	13,677,995	-
4,002,428	1,571,955	2,330	54,109,002	-
<u>(7,948,060)</u>	<u>(1,273,142)</u>	<u>(3,597,448)</u>	<u>(42,304,194)</u>	<u>-</u>
<u>1,646,541</u>	<u>676,502</u>	<u>1,592,841</u>	<u>33,680,787</u>	<u>-</u>
107,265	118,799	-	510,951	-
<u>4,875</u>	<u>5,399</u>	<u>-</u>	<u>23,222</u>	<u>-</u>
<u>112,140</u>	<u>124,198</u>	<u>-</u>	<u>534,173</u>	<u>-</u>
<u>\$ 4,959,162</u>	<u>\$ 1,320,728</u>	<u>\$ 1,789,994</u>	<u>\$ 51,519,047</u>	<u>\$ 251,209</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

September 30, 2018

	Business-Type Activities - Enterprise Funds		
	Electric	Water	Golf
Liabilities and Net Position:			
Current Liabilities:			
Accounts payable	\$ 722,868	\$ 956,802	\$ 2,035
Accrued payroll	43,789	61,168	747
Intergovernmental payable	33,877	-	-
Accrued interest payable	-	23,490	-
Due to other funds	77,300	44,100	1,547,860
Other current liabilities	387,077	210,470	-
Capital leases payable	-	183,903	-
Bonds payable - current maturity:			
General obligation bonds	-	-	-
Revenue bonds	-	-	-
Total current liabilities	1,264,911	1,479,933	1,550,642
Noncurrent Liabilities:			
Bonds payable:			
Noncurrent general obligation bonds	-	-	-
Revenue bonds	-	5,650,000	-
Net pension liability - TMRS	226,668	294,435	56,083
Total OPEB liability	52,822	68,614	13,069
Unamortized charge - refunding bond	-	(49,892)	-
Unamortized premiums (discount) on bonds	-	-	-
Compensated absences	140,715	152,522	4,427
Closure and post closure liability	-	-	-
Total noncurrent liabilities	420,205	6,115,679	73,579
Total liabilities	1,685,116	7,595,612	1,624,221
Deferred Inflows of Resources:			
Deferred inflow - TMRS pension	124,568	161,810	30,821
Net Position:			
Net investment in capital assets	2,258,686	18,603,745	3,043,856
Restricted for long term debt	-	32,322	-
Restricted for capital projects	-	5,290,956	-
Unrestricted	2,993,418	1,691,701	(1,687,669)
Total net position	5,252,104	25,618,724	1,356,187
Total liabilities, deferred inflows of resources and net position	\$ 7,061,788	\$ 33,376,146	\$ 3,011,229

The accompanying notes are an integral part of these financial statements.

Business-Type Activities - Enterprise Funds				Governmental
Landfill	EMS	Drainage	Enterprise Fund Total	Internal Service Fund
\$ 35,153	\$ 32,621	\$ 6,253	\$ 1,755,732	\$ 56,781
46,357	53,164	-	205,225	-
6,235	84,063	-	124,175	-
2,193	2,806	230	28,719	-
19,300	84,058	-	1,772,618	-
14,500	-	-	612,047	-
217,319	210,470	-	611,692	-
-	-	-	-	-
-	-	-	-	-
<u>341,057</u>	<u>467,182</u>	<u>6,483</u>	<u>5,110,208</u>	<u>56,781</u>
-	-	61,318	61,318	-
-	-	-	5,650,000	-
217,321	240,689	-	1,035,196	-
50,643	56,089	-	241,237	-
-	-	(2,495)	(52,387)	-
-	-	746	746	-
124,693	140,552	-	562,909	-
<u>2,895,148</u>	<u>-</u>	<u>-</u>	<u>2,895,148</u>	<u>-</u>
<u>3,287,805</u>	<u>437,330</u>	<u>59,569</u>	<u>10,394,167</u>	<u>-</u>
<u>3,628,862</u>	<u>904,512</u>	<u>66,052</u>	<u>15,504,375</u>	<u>56,781</u>
119,431	132,273	-	568,903	-
1,429,222	466,032	1,531,523	27,333,064	-
-	-	16,598	48,920	-
10,486	-	-	5,301,442	-
<u>(228,839)</u>	<u>(182,089)</u>	<u>175,821</u>	<u>2,762,343</u>	<u>194,428</u>
<u>1,210,869</u>	<u>283,943</u>	<u>1,723,942</u>	<u>35,445,769</u>	<u>194,428</u>
<u>\$ 4,959,162</u>	<u>\$ 1,320,728</u>	<u>\$ 1,789,994</u>	<u>\$ 51,519,047</u>	<u>\$ 251,209</u>

CITY OF FREDERICKSBURG, TEXAS

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS**

Fiscal year ended September 30, 2018

	Business-Type Activities - Enterprise Funds		
	Electric	Water	Golf
Operating Revenues:			
Electric sales	\$ 11,830,863	\$ -	\$ -
Water sales	-	3,510,426	-
Sewer sales	-	2,983,940	-
Golf course fees	-	-	190,529
Garbage collection and tipping fees	-	-	-
EMS fees	-	-	-
Drainage utilities	-	-	-
Licenses and permits	15,879	21,596	-
Property taxes	-	-	-
Rents and royalties	37,676	2,061	450
Other revenue	207,815	607,944	1,480
Total operating revenues	12,092,233	7,125,967	192,459
Operating Expenses:			
Salaries and wages	955,958	1,246,083	242,798
Employee benefits	272,719	474,686	70,039
Contracted services	110,864	51,850	86
Other operating expenses	9,355,085	1,575,858	206,753
Amortization of bond costs	-	5,220	-
Depreciation	312,160	1,263,824	166,509
Total operating expenses	11,006,786	4,617,521	686,185
Operating income (loss)	1,085,447	2,508,446	(493,726)
Nonoperating Revenues (Expenses):			
Investment income	34,638	90,099	8
Gain on transfer to Touchstone Golf	-	-	142,849
Interest expense	-	(182,264)	(17,505)
Transfers to other funds	(974,100)	(585,500)	-
Transfers from other funds	-	-	796,727
Gain on sale of fixed assets	13,050	119,885	-
Total nonoperating revenues (expenses)	(926,412)	(557,780)	922,079
Changes in net position	159,035	1,950,666	428,353
Total net position - beginning	5,373,531	23,998,231	1,085,012
Prior period adjustment	(280,462)	(330,173)	(157,178)
Total net position - beginning restated	5,093,069	23,668,058	927,834
Total net position - ending	\$ 5,252,104	\$ 25,618,724	\$ 1,356,187

The accompanying notes are an integral part of these financial statements.

Business-Type Activities - Enterprise Funds				Governmental Activities
Landfill	EMS	Drainage	Enterprise Fund Total	Internal Service Fund
\$ -	\$ -	\$ -	\$ 11,830,863	\$ -
-	-	-	3,510,426	-
-	-	-	2,983,940	-
-	-	-	190,529	-
2,744,058	-	-	2,744,058	-
-	1,290,889	-	1,290,889	-
-	-	79,095	79,095	-
-	-	-	37,475	-
-	-	78,080	78,080	-
-	-	-	40,187	-
769	485,220	-	1,303,228	1,786,483
<u>2,744,827</u>	<u>1,776,109</u>	<u>157,175</u>	<u>24,088,770</u>	<u>1,786,483</u>
923,636	1,144,420	-	4,512,895	-
353,090	357,581	-	1,528,115	-
6,482	5,451	48,564	223,297	-
720,685	704,002	106	12,562,489	1,983,670
-	-	1,749	6,969	-
597,679	144,448	282,236	2,766,856	-
<u>2,601,572</u>	<u>2,355,902</u>	<u>332,655</u>	<u>21,600,621</u>	<u>1,983,670</u>
<u>143,255</u>	<u>(579,793)</u>	<u>(175,480)</u>	<u>2,488,149</u>	<u>(197,187)</u>
23,887	51	6,944	155,627	7,889
-	-	-	142,849	-
-	(3,072)	(3,414)	(206,255)	-
(226,000)	-	-	(1,785,600)	-
-	640,396	-	1,437,123	-
15,353	8,429	-	156,717	-
<u>(186,760)</u>	<u>645,804</u>	<u>3,530</u>	<u>(99,539)</u>	<u>7,889</u>
(43,505)	66,011	(171,950)	2,388,610	(189,298)
<u>1,498,886</u>	<u>510,865</u>	<u>1,895,892</u>	<u>34,362,417</u>	<u>383,726</u>
<u>(244,512)</u>	<u>(292,933)</u>	<u>-</u>	<u>(1,305,258)</u>	<u>-</u>
<u>1,254,374</u>	<u>217,932</u>	<u>1,895,892</u>	<u>33,057,159</u>	<u>383,726</u>
<u>\$ 1,210,869</u>	<u>\$ 283,943</u>	<u>\$ 1,723,942</u>	<u>\$ 35,445,769</u>	<u>\$ 194,428</u>

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Fiscal year ended September 30, 2018

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Electric</u>	<u>Water</u>	<u>Golf</u>
Cash Flows from Operating Activities:			
Cash received from customers	\$ 12,135,224	\$ 7,181,906	\$ 181,239
Cash payments to employees for services	(1,230,558)	(1,633,424)	(337,657)
Cash payments for suppliers	<u>(9,571,630)</u>	<u>(1,040,283)</u>	<u>(335,971)</u>
Net cash provided (used) by operating activities	<u>1,333,036</u>	<u>4,508,199</u>	<u>(492,389)</u>
Cash Flows from Noncapital Financing Activities:			
Operating transfers out	(974,100)	(585,500)	-
Operating transfers in	<u>-</u>	<u>-</u>	<u>796,727</u>
Net cash provided (used) by noncapital financing activities	<u>(974,100)</u>	<u>(585,500)</u>	<u>796,727</u>
Cash Flows from Capital and related Financing Activities:			
Acquisition of capital assets	(198,622)	(2,038,666)	-
Capital lease proceeds	-	-	-
Principal paid on capital debt	-	(737,315)	(1,855)
Interest paid on capital debt	-	(184,864)	(17,619)
Proceeds from the sale of capital assets	<u>13,050</u>	<u>131,786</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(185,572)</u>	<u>(2,829,059)</u>	<u>(19,474)</u>
Cash Flows from Investing Activities			
Interest received on investments	34,638	90,099	8
Net increase (decrease) in cash and cash equivalents	208,002	1,183,739	284,872
Cash and cash equivalents, beginning	<u>1,910,354</u>	<u>6,785,356</u>	<u>(382,372)</u>
Cash and cash equivalents, ending	<u>\$ 2,118,356</u>	<u>\$ 7,969,095</u>	<u>\$ (97,500)</u>

SCHEDULE OF NONCASH ACTIVITIES

Change in net pension liabilities	\$ (218,184)	\$ (253,756)	\$ (217,336)
Change in postemployment benefit liability	3,522	4,575	871
Disposal of operations	-	-	142,849

The accompanying notes are an integral part of these financial statements.

Business-Type Activities - Enterprise Funds				Governmental
Landfill	EMS	Drainage	Enterprise Fund Total	Internal Service Fund
\$ 2,872,454	\$ 1,749,209	\$ 157,117	\$ 24,277,149	\$ 1,789,222
(1,234,402)	(1,463,258)	-	(5,899,299)	-
(455,829)	(651,026)	(42,417)	(12,097,156)	(2,023,040)
<u>1,182,223</u>	<u>(365,075)</u>	<u>114,700</u>	<u>6,280,694</u>	<u>(233,818)</u>
(226,000)	-	-	(1,785,600)	-
<u>-</u>	<u>640,396</u>	<u>-</u>	<u>1,437,123</u>	<u>-</u>
(226,000)	640,396	-	(348,477)	-
(23,076)	(282,748)	-	(2,543,112)	-
-	240,000	-	240,000	-
(375,692)	(220,111)	(59,985)	(1,394,958)	-
(2,817)	(2,154)	(3,639)	(211,093)	-
<u>15,353</u>	<u>18,674</u>	<u>-</u>	<u>178,863</u>	<u>-</u>
<u>(386,232)</u>	<u>(246,339)</u>	<u>(63,624)</u>	<u>(3,730,300)</u>	<u>-</u>
23,887	51	6,944	155,627	7,889
593,878	29,033	58,020	2,357,544	(225,929)
<u>1,606,371</u>	<u>53,907</u>	<u>131,853</u>	<u>10,105,469</u>	<u>477,138</u>
<u>\$ 2,200,249</u>	<u>\$ 82,940</u>	<u>\$ 189,873</u>	<u>\$ 12,463,013</u>	<u>\$ 251,209</u>

\$ (188,002)	\$ (227,443)	\$ -	\$ (1,104,721)	\$ -
3,377	3,740	-	16,085	-
-	-	-	142,849	-

CITY OF FREDERICKSBURG, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Fiscal year ended September 30, 2018

	Business-Type Activities - Enterprise Funds		
	Electric	Water	Golf
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 1,085,447	\$ 2,508,446	\$ (493,726)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	312,160	1,263,824	166,509
Amortization	-	5,220	942
(Increase) decrease in operating assets:			
Accounts receivable	42,688	55,636	(11,201)
Interfund receivables	45,933	-	-
Due from other governments	303	303	(19)
Inventories	24,907	14,149	-
Increase (decrease) in operating liabilities:			
Accounts payable	(88,008)	644,750	(6,869)
Wages payable	11,568	59,372	(25,762)
Interest payable	-	-	-
Due to other funds	(12,822)	(25,179)	(97,597)
Due to other governments	(83,835)	-	(7,410)
Compensated absences payable	(13,449)	27,973	-
Landfill closure liability	-	-	-
Other current liabilities	<u>8,144</u>	<u>(46,295)</u>	<u>(17,256)</u>
Net cash provided by operating activities	<u>\$ 1,333,036</u>	<u>\$ 4,508,199</u>	<u>\$ (492,389)</u>

The accompanying notes are an integral part of these financial statements.

Business-Type Activities - Enterprise Funds				Governmental
Landfill	EMS	Drainage	Enterprise Fund Total	Internal Service Fund
\$ 143,255	\$ (579,793)	\$ (175,480)	\$ 2,488,149	\$ (197,187)
597,679	144,448	282,236	2,766,856	-
-	-	1,749	7,911	-
127,627	(30,022)	(58)	184,670	2,739
45,933	-	-	91,866	-
-	3,122	-	3,709	-
-	-	-	39,056	-
13,089	16,966	6,253	586,181	(39,370)
41,723	25,639	-	112,540	-
(25,095)	-	-	(25,095)	-
(13,513)	2,673	-	(146,438)	-
-	38,788	-	(52,457)	-
601	13,104	-	28,229	-
250,324	-	-	250,324	-
<u>600</u>	<u>-</u>	<u>-</u>	<u>(54,807)</u>	<u>-</u>
<u>\$ 1,182,223</u>	<u>\$ (365,075)</u>	<u>\$ 114,700</u>	<u>\$ 6,280,694</u>	<u>\$ (233,818)</u>



NOTES TO BASIC FINANCIAL STATEMENTS



CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(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.

Reporting entity

Component unit

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations; thus, data from these units, if any existed, would be combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government.

The City of Fredericksburg has a component unit displayed as a discretely presented component unit. The Fredericksburg Convention and Visitor Bureau (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.

The 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.

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 Street, Fredericksburg, Texas 78624.

Government-wide and fund financial statements

The government-wide financial statements include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City and its component unit. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. The primary government is reported separately from the component unit within the government-wide statements.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(1) Summary of significant accounting policies (continued)

Government-wide and fund financial statements (continued)

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges of customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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. This measurement focus is also used for 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 when all applicable eligibility requirements imposed by the provider are met.

Governmental fund level financial statements are reported using 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 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.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(1) Summary of significant accounting policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary fund type) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income determination.

The City reports the following major governmental fund:

The general fund is the general operating fund of the City and is always classified as a major fund. The general fund is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance.

The City reports the following major proprietary funds:

The electric fund is used to account for electrical 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 water and sewer services through user charges.

The golf course fund is used to account for the golf course operations that are intended to be self-supporting through user charges.

The solid waste fund is used to account for the sanitary landfill operations that are intended to be self-supporting.

The emergency medical service (EMS) fund is used to account for the joint EMS services with the County of Gillespie. The operations are intended to be self-supporting.

The drainage fund is used to account for the drainage services that are intended to be self-supporting.

Additionally, the City reports an internal service fund to account for health insurance services provided to the departments of the government on a cost reimbursement basis.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and wastewater 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.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(1) Summary of significant accounting policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

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 City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds 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.

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

Cash and investments

Cash and temporary investments consist of demand 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 Number 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.

Investments are stated at fair value and categorized by using the fair value hierarchy established by generally accepted accounting principles. The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(1) Summary of significant accounting policies (continued)

Cash and investments (continued)

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable values or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Accounts 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 the 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, 2018. 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 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.

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 proprietary funds are valued at cost (first-in, first-out method).

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(1) Summary of significant accounting policies (continued)

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. Capital assets such as equipment are defined as assets with an individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10 – 50 years
Improvements other than buildings	10 – 50 years
Equipment	5 - 15 years
Infrastructure	30 years

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.

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, business-type activities, or proprietary fund type statement of net position. 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.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(1) Summary of significant accounting policies (continued)

Long-term obligations (continued)

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.

Fund balance

The City implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose, positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. Assigned fund balance is delegated by the City Council to the City Manager.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City’s council or its designated official has provided otherwise in its commitments or assignment actions.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(1) Summary of significant accounting policies (continued)

Net position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and Texas Emergency Services Retirement System (TESRS) and additions to/deductions from TMRS's and TESRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS and TESRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other postemployment benefits

During the fiscal year 2018, the City changed accounting policies related to the total other postemployment benefit (OPEB) liability, deferred outflows of resources, and deferred inflows of resources in the statement of net position by adopting GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". Accordingly, the effect of the accounting change is reported in the statement of net position and statement of activities for the current year. The OPEB position has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense.

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.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(2) Stewardship, compliance and accountability

Budgetary information

The City Council follows the following procedures in establishing the budgetary data reflected in the financial statements:

- 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 Fund.
- Public hearings are conducted to obtain taxpayer comments.
- The budget is legally adopted on a fund basis by the City Council.
- The City Council can adjust the budget during its formal City Council meetings.
- Actual expenditures cannot exceed the legally-adopted budget.
- Appropriations lapse at the end of the year.
- Budgets are adopted on a basis consistent with generally accepted accounting principles.

(3) Deposits and investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Avenue Maturity (Days)</u>
Investments recorded as cash equivalents		
Texpool - valued at amortized cost	\$ 460,981	3
US Treasury notes - Level 2 investment	<u>10,504,865</u>	64
Total investments recorded as cash equivalents	10,965,846	
Cash at bank	<u>7,780,395</u>	
Total cash and cash equivalents	<u><u>\$ 18,746,241</u></u>	
Investments		
Certificates of deposits - valued at amortized cost	<u><u>\$ 650,000</u></u>	300
Portfolio weighted average maturity		75

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.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(3) Deposits and investments (continued)

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, 2018, the City had cash deposits of \$8,013,306. The total fair market value of pledged securities held as collateral amounted to \$17,904,991. In addition, \$250,000 of the deposits are covered by FDIC coverage.

Credit risk. It is the City's policy to limit its 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, 2018, were rated as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
TexPool	AAAm	Standard and 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:

- Obligations of the U.S., its agencies and instrumentalities;
- 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;
- No load money market mutual funds; and
- 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.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(4) Receivables

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

	Government Funds		Enterprises Funds					Totals
	General	Electric	Water	Golf	Landfill	EMS	Other Fund	
Taxes	\$ 839,431	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 839,431
Due from other governments	1,085,548	2,332	2,332	19	-	25,650	-	1,115,881
Customer accounts	68,954	1,064,722	582,031	11,201	227,060	483,832	7,075	2,444,875
Notes	12,251	-	-	-	-	-	-	12,251
Interest	-	-	33	-	92	-	-	125
								-
Gross receivables	2,006,184	1,067,054	584,396	11,220	227,152	509,482	7,075	4,412,563
Less: allowance for uncollectibles	20,741	8,293	4,493	-	850	72,394	54	106,825
Net total receivables	<u>\$ 1,985,443</u>	<u>\$ 1,058,761</u>	<u>\$ 579,903</u>	<u>\$ 11,220</u>	<u>\$ 226,302</u>	<u>\$ 437,088</u>	<u>\$ 7,021</u>	<u>\$ 4,305,738</u>

(5) Capital assets

Capital asset activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental Activities:				
<u>Capital assets, not being depreciated:</u>				
Land	\$ 7,583,656	\$ -	\$ -	\$ 7,583,656
Total capital assets, not being depreciated	<u>7,583,656</u>	<u>-</u>	<u>-</u>	<u>7,583,656</u>
Capital assets, being depreciated:				
Buildings	9,718,455	27,043	-	9,745,498
Improvements other than buildings	20,731,702	656,114	-	21,387,816
Equipment	<u>7,332,037</u>	<u>752,001</u>	<u>(241,650)</u>	<u>7,842,388</u>
Total capital assets, being depreciated	<u>37,782,194</u>	<u>1,435,158</u>	<u>(241,650)</u>	<u>38,975,702</u>
Less accumulated depreciation:				
Buildings	(4,632,320)	(308,824)	-	(4,941,144)
Improvements other than buildings	(10,725,810)	(853,872)	-	(11,579,682)
Equipment	<u>(5,761,835)</u>	<u>(640,342)</u>	<u>241,450</u>	<u>(6,160,727)</u>
Total accumulated depreciation	<u>(21,119,965)</u>	<u>(1,803,038)</u>	<u>241,450</u>	<u>(22,681,553)</u>
Total capital assets being depreciated, net	<u>16,662,229</u>	<u>(367,880)</u>	<u>(200)</u>	<u>16,294,149</u>
Governmental activities capital assets, net	<u>\$ 24,245,885</u>	<u>\$ (367,880)</u>	<u>\$ (200)</u>	<u>\$ 23,877,805</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(5) Capital assets (continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,098,666	\$ 28,282	\$ -	\$ 1,126,948
Total capital assets, not being depreciated	<u>1,098,666</u>	<u>28,282</u>	<u>-</u>	<u>1,126,948</u>
Capital assets, being depreciated:				
Buildings and improvements	6,996,152	115,462	(40,578)	7,071,036
Improvements other than buildings	13,677,995	-	-	13,677,995
Equipment	<u>53,024,945</u>	<u>2,399,368</u>	<u>(1,315,311)</u>	<u>54,109,002</u>
Total capital assets, being depreciated	<u>73,699,092</u>	<u>2,514,830</u>	<u>(1,355,889)</u>	<u>74,858,033</u>
Less accumulated depreciation:				
Buildings and improvements	(4,995,076)	(262,521)	-	(5,257,597)
Improvements other than buildings	(7,621,401)	(787,168)	1,293,164	(7,115,405)
Equipment	<u>(28,254,603)</u>	<u>(1,717,167)</u>	<u>40,578</u>	<u>(29,931,192)</u>
Total accumulated depreciation	<u>(40,871,080)</u>	<u>(2,766,856)</u>	<u>1,333,742</u>	<u>(42,304,194)</u>
Total capital assets being depreciated, net	<u>32,828,012</u>	<u>(252,026)</u>	<u>(22,147)</u>	<u>32,553,839</u>
Business-type capital assets, net	<u>\$ 33,926,678</u>	<u>\$ (223,744)</u>	<u>\$ (22,147)</u>	<u>\$ 33,680,787</u>

Depreciation expense was charged to the governmental functions as follows:

Governmental Activities:	
Administration	\$ 124,570
Police	322,333
Fire	161,090
Streets	785,465
Parks	394,931
Health	743
Engineering	13,341
Emergency management	<u>565</u>
Total depreciation expense - governmental activities	<u>\$ 1,803,038</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(5) Capital assets (continued)

Business-Type Activities	
Electric	\$ 312,160
Water and sewer	1,263,824
Golf	166,509
Landfill	597,679
EMS	144,448
Drainage utilities	<u>282,236</u>
 Total depreciation expense - business-type activities	 <u>\$ 2,766,856</u>

(6) Interfund receivables, payables and transfers

	<u>Due To</u>	<u>Due From</u>
General Fund:		
Electric - in lieu of taxes	\$ -	\$ 140,700
EMS	-	84,058
Drainage	259	-
Debt service	-	18,297
Electric Fund:		
General fund - in lieu of taxes	77,300	-
Golf	-	773,930
Water and Sewer Fund:		
General fund - in lieu of taxes	44,100	-
Golf Fund:		
Electric	773,930	-
Landfill	773,930	-
Landfill:		
General fund - in lieu of taxes	19,300	-
Golf	-	773,930
EMS:		
General fund	84,058	-
Drainage Fund:		
General fund	-	259
Debt Service:		
General fund	18,297	-
Capital projects	2,500	-
Capital Projects:		
Debt service	<u>-</u>	<u>2,500</u>
 Total due to / due from	 <u>\$ 1,793,674</u>	 <u>\$ 1,793,674</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(6) Interfund receivables, payables and transfers (continued)

The balances of \$773,930 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.

	Transfers In	Transfers Out
General Fund:		
Electric	\$ 974,100	\$ -
Water and sewer	585,500	-
Landfill	226,000	-
EMS	-	640,396
Golf	-	796,727
Electric Fund:		
General fund	-	974,100
Water and Sewer Fund:		
General fund	-	585,500
Landfill:		
General fund	-	226,000
EMS:		
General fund	640,396	-
Golf:		
General fund	796,727	-
Total transfers	\$ 3,222,723	\$ 3,222,723

Transfers are used (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, (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(6) Interfund receivables, payables and transfers (continued)

In the year ended September 30, 2018. 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	\$	974,100
Water and sewer		585,500
Landfill		<u>226,000</u>
 Total	\$	<u><u>1,785,600</u></u>

(7) Capital leases

The government has acquired certain capital assets for governmental and business-type 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, 2018 were as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
2019	\$ 332,132	\$ 539,246
2020	214,763	81,344
2021	<u>70,296</u>	<u>-</u>
 Total minimum lease payments	617,191	620,590
Less: amount representing interest	<u>16,077</u>	<u>8,898</u>
 Present value of minimum lease payments	\$ <u><u>601,114</u></u>	\$ <u><u>611,692</u></u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(8) Long-term liabilities

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

	Outstanding October 1, 2017	Increases	Decreases	Balance September 30, 2018	Amounts Due in One Year
Governmental Activities:					
General obligation bonds	\$ 3,353,697	\$ -	\$ (530,015)	\$ 2,823,682	\$ 543,682
Unlimited tax notes	5,005,000	-	(80,000)	4,925,000	125,000
Add: unamortized premiums	<u>119,401</u>	<u>-</u>	<u>(9,185)</u>	<u>110,216</u>	<u>9,185</u>
Total bonds payable	8,478,098	-	(619,200)	7,858,898	677,867
Capitalized leases	556,733	426,240	(381,859)	601,114	322,385
Compensated absences	<u>792,438</u>	<u>253,431</u>	<u>(198,110)</u>	<u>847,759</u>	<u>211,940</u>
Total governmental activities	<u>9,827,269</u>	<u>679,671</u>	<u>(1,199,169)</u>	<u>9,307,771</u>	<u>1,212,192</u>
Business-Type Activities:					
General obligation bonds:					
General obligation bonds	376,303	-	(314,985)	61,318	61,318
Less: unamortized issuance costs	(5,410)	3,652	-	(1,758)	1,758
Add: unamortized premiums	2,006	(1,003)	-	1,003	(1,003)
Less: deferred amount on refundings	<u>(1,988)</u>	<u>994</u>	<u>-</u>	<u>(994)</u>	<u>994</u>
Total bonds payable	<u>370,911</u>	<u>3,643</u>	<u>(314,985)</u>	<u>59,569</u>	<u>63,067</u>
Revenue bonds and notes:					
Revenue bonds	5,940,000	-	(290,000)	5,650,000	300,000
Less: unamortized issuance costs	<u>(53,218)</u>	<u>3,326</u>	<u>-</u>	<u>(49,892)</u>	<u>3,326</u>
Total revenue bonds and notes	<u>5,886,782</u>	<u>3,326</u>	<u>(290,000)</u>	<u>5,600,108</u>	<u>303,326</u>
Capitalized leases	1,184,524	240,000	(812,832)	611,692	531,700
Compensated absences	<u>637,193</u>	<u>85,014</u>	<u>(159,298)</u>	<u>562,909</u>	<u>140,727</u>
Total business-type activities	<u>8,079,410</u>	<u>91,983</u>	<u>(764,283)</u>	<u>6,834,278</u>	<u>507,120</u>
Total long-term liabilities	<u>\$ 17,906,679</u>	<u>\$ -</u>	<u>\$ (1,963,452)</u>	<u>\$ 16,142,049</u>	<u>\$ 1,719,312</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(8) Long-term liabilities (continued):

Governmental activities long-term liabilities at September 30, 2018, consisted of the following:

Series	Governmental Activities		
	Original Issue	Interest Rate	Debt Outstanding
2010 general obligation refunding bonds	\$ 3,604,164	1.00 to 3.00%	\$ 398,682
2012 general obligation bonds	3,200,000	2.88%	2,425,000
2016 limited tax notes	1,530,000	1.39%	1,425,000
2017 tax and limited pledge rev CO's	3,530,000	3.00%	3,500,000
Totals	\$ 11,864,164		\$ 7,748,682

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, 2018, consisted of the following:

Series	Business-Type Activities		
	Original Issue	Interest Rate	Debt Outstanding
2010 general obligation refunding bonds	\$ 2,465,836	1.00 to 3.00%	\$ 61,318
2013 revenue bonds	6,500,000	3.097%	5,650,000
Totals	\$ 10,450,836		\$ 5,711,318

The annual debt service requirements to be paid on governmental activities long-term debt outstanding at September 30, 2018, are as follows:

Fiscal Year	Governmental Activities		
	Principal	Interest	Total
2019	\$ 668,682	\$ 201,285	\$ 869,967
2020	625,000	185,644	810,644
2021	640,000	172,839	812,839
2022	655,000	159,252	814,252
2023	670,000	144,780	814,780
2024-2028	1,750,000	614,436	2,364,436
2029-2033	1,805,000	343,390	2,148,390
2034-2037	935,000	66,937	1,001,937
Totals	\$ 7,748,682	\$ 1,888,563	\$ 9,637,245

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(8) Long-term liabilities (continued):

The annual debt service requirements to be paid on business-type activities long-term debt outstanding at September 30, 2018, are as follows:

Fiscal Year	Business-Type Activities		
	Principal	Interest	Total
2019	\$ 361,318	\$ 172,175	\$ 533,493
2020	310,000	160,889	470,889
2021	320,000	151,134	471,134
2022	330,000	141,068	471,068
2023	340,000	130,693	470,693
2024-2028	1,865,000	486,306	2,351,306
2029-2033	2,185,000	173,355	2,358,355
Totals	<u>\$ 5,711,318</u>	<u>\$ 1,415,620</u>	<u>\$ 7,126,938</u>

(9) Retirement plan

Plan description

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

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

Benefits provided

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members are eligible to retire at age sixty (60) and above with five (5) or more years of service or with twenty (20) years of service regardless of age. A member is vested after five (5) years. The contribution rate for the employees is 5%, and the City matching percent is currently 2 to 1.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(9) Retirement plan (continued)

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	95
Inactive employees entitled to but not yet receiving benefits	55
Active employees	<u>169</u>
	<u>319</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.52% and 9.60% in calendar years 2017 and 2018 respectively. The City's contributions to TMRS for the year ended September 30, 2018 were \$958,161, and were equal to the required contributions.

Net pension liability

The City's net pension liability (NPL) was measured as of December 31, 2017, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(9) Retirement plan (continued)

Net pension liability (continued)

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rates (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal (EAN) actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(9) Retirement plan (continued)

Net pension liability (continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

Discount rate

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

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(9) Retirement plan (continued)

Net pension liability (continued)

Changes in the net pension liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2016	\$ 39,742,157	\$ 35,185,166	\$ 4,556,991
Changes for the year:			
Service cost	1,074,769	-	1,074,769
Interest	2,674,435	-	2,674,435
Changes in current period benefits	-	-	-
Difference between expected and actual experience	301,986	-	301,986
Changes of assumptions	-	-	-
Contributions - employer	-	931,010	(931,010)
Contributions - employee	-	488,976	(488,976)
Net investment income	-	4,877,963	(4,877,963)
Benefit payments, including refunds of employee contributions	(1,316,569)	(1,316,569)	-
Administrative expense	-	(25,273)	25,273
Other changes	-	(1,281)	1,281
Net changes	<u>2,734,621</u>	<u>4,954,826</u>	<u>(2,220,205)</u>
Balance at December 31, 2017	<u>\$ 42,476,778</u>	<u>\$ 40,139,992</u>	<u>\$ 2,336,786</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(9) Retirement plan (continued)

Net pension liability (continued)

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 7,936,822	\$ 2,336,786	\$ (2,303,943)

Pension plan fiduciary net position

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

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions:

For the year ended September 30, 2018, the City recognized pension expense of \$949,566.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 242,539	\$ (261,368)
Changes in actuarial assumptions	224,583	-
Difference between projected and actual investment earnings	-	(1,022,838)
Contributions subsequent to the measurement date	686,269	-
Total	\$ 1,153,391	\$ (1,284,206)

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(9) Retirement plan (continued)

Net pension liability (continued)

The City reported \$686,269 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Pension Expense</u>
2019	\$ 67,786
2020	2,471
2021	(449,493)
2022	(442,604)
2023	4,756
Thereafter	-
Total	<u>\$ (817,084)</u>

(10) 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 HB 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 services, as well as 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 valuation 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.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(10) Texas Emergency Services Retirement System (continued)

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, 2018 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.

TESRS has prepared the schedule of collective pension amounts. The collective pension expense based on TESRS' fiscal year ended August 31, 2017 is shown in the following table:

Service cost	\$	11,648
Interest		72,399
Projected earnings on pension plan investments		(58,995)
Amortization of differences between projected and actual earnings on plan investments		1,399
Amorization of changes of assumptions		1,971
Amortizations of differences between expected and actual experience		(62)
Pension plan administrative expense		1,156
Changes in benefit provisions		-
Total pension expense	\$	<u>29,516</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(10) Texas Emergency Services Retirement System (continued)

Schedule of participating department allocations (continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 43	\$ (456)
Changes in actuarial assumptions	591	-
Difference between projected and actual investment earnings	-	(8,747)
Contributions subsequent to the measurement date	<u>20,950</u>	<u>-</u>
Total	<u><u>\$ 21,584</u></u>	<u><u>\$ (9,203)</u></u>

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

<u>Fiscal Year Ended August 31,</u>	<u>Net Deferred Outflows of Resources</u>
2019	\$ 10,196
2020	(5,674)
2021	(8,350)
2022	<u>(4,741)</u>
Total	<u><u>\$ (8,569)</u></u>

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, 2018 as shown in the schedule of participating department allocations. The City's allocation percentage is 0.731%. The proportionate share of the City's net pension liability at September 30, 2018 was \$158,265.

Contributions of fiscal year August 31, 2018 were \$55,956.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(11) Other postemployment benefit plan

Plan description

The City participates in the defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which the City may elect, by ordinance, to provide group-term life insurance for active members, including retirees.

Benefit payments

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

Contributions

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

The City contribution rate is equal to the cost of providing one-year term life insurance. The contribution rate for the City was 0.22% and 0.23% for calendar years 2018 and 2017, respectively. The City's contributions to TMRS were \$22,286 and \$22,277 for the fiscal year ended September 30, 2018 and 2017, respectively, and were equal to the required contributions.

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	68
Inactive employees entitled to but not yet receiving benefits	30
Active employees	<u>169</u>
Total	<u>267</u>

OPEB liability

The City's OPEB liability of \$544,552 was measured as of December 31, 2017, and was determined by an actuary valuation as of that date.

CITY OF FREDERICKSBURG, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018

(11) Other postemployment benefit plan (continued)

Actuary assumptions

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

Inflation	2.50%
Salary increases	3.50% to 10.5% including inflation
Discount rate *	3.31%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with males rates multiplied by 109% and females rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with males rates multiplied by 109% and females rates multiplied by 103% with a 3 year set-forward for both male and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

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

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

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(11) Other postemployment benefit plan (continued)

Changes in the total OPEB liability:

Balance at December 31, 2016	\$ 468,990
Changes for the year:	
Service cost	18,581
Interest on the total OPEB liability	17,987
Changes of benefit terms	-
Difference between expected and actual experience	-
Change of assumptions	43,885
Benefit payments	<u>(4,891)</u>
Net changes	<u>75,562</u>
Balance at December 31, 2017	<u>\$ 544,552</u>

Sensitivity of the total OPEB liability to changes in the discount rate:

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

<u>1% Decrease in</u> <u>Discount Rate (2.31%)</u>	<u>Discount Rate (3.31%)</u>	<u>1% Increase in</u> <u>Discount Rate (4.31%)</u>
\$ 657,273	\$ 544,552	\$ 456,959

OPEB expenses, deferred outflows of resources and deferred inflows of resources related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$43,762.

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

	<u>Deferred Outflows</u> <u>of Resources</u>	<u>Deferred Inflows</u> <u>of Resources</u>
Changes in actuarial assumptions	\$ 36,691	\$ -
Contributions subsequent to the measurement date	<u>15,727</u>	<u>-</u>
Total	<u>\$ 52,418</u>	<u>\$ -</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(11) Other postemployment benefit plan (continued)

OPEB expenses, deferred outflows of resources and deferred inflows of resources related to OPEB (continued)

The City reported \$15,727 as deferred outflows of resources related to the OPEB liability resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the OPEB liability will be recognized in OPEB expenses as follows:

Year Ended September 30,	Amortization Expense
2019	\$ 7,194
2020	7,194
2021	7,194
2022	7,194
2023	7,194
Thereafter	721
Total	<u>\$ 36,691</u>

(12) 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 in 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 (IBNR). 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 judgements 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, 2018.

(13) 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.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

September 30, 2018

(14) 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 \$2,895,148 at September 30, 2018, which is based on 90.54% usage of current open cells and 40.77% 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, 2018. 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.

(15) Prior period adjustment

During fiscal year 2018, the City adopted GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.” With the adoption of this standard, the City must assume their net other postemployment benefit liability related to the supplemental death benefit fund held with TMRS. Also, during the fiscal year, it was noted that the City did not properly allocate the net pension liabilities and related deferred inflows of resources and deferred outflows of resources between governmental activities and business type activities. In addition, the City did not record a net pension liability for their allocated portion of the TESRS retirement plan. Below is a table reflecting the changes in beginning net position:

	Governmental Activities	Business type Activities	Proprietary Funds				
			Electric	Water	Golf	Landfill	EMS
Beginning net position	\$ 18,204,009	\$ 33,365,924	\$ 5,373,531	\$ 23,998,231	\$ 1,085,012	\$ 1,498,886	\$ 510,865
Restatement for GASB 75, OPEB	(252,254)	(200,626)	(43,929)	(57,063)	(10,869)	(42,118)	(46,647)
Restatement for allocation change of TMRS net pension liability	2,261,934	(108,139)	(236,533)	(273,110)	(146,309)	(202,394)	(246,286)
Restatement for recognition of TESRS net pension liability	(142,064)	-	-	-	-	-	-
Beginning net position, restated	<u>\$ 20,071,625</u>	<u>\$ 33,057,159</u>	<u>\$ 5,093,069</u>	<u>\$ 23,668,058</u>	<u>\$ 927,834</u>	<u>\$ 1,254,374</u>	<u>\$ 217,932</u>

CITY OF FREDERICKSBURG, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2018

(16) Golf course fund

During the current fiscal year the City changed the management of the golf course from city employees to contracted services of Touchstone. Accordingly the related assets and liabilities have been transferred to the records of Touchstone.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by GASB but are not considered a part of the basic financial statements



CITY OF FREDERICKSBURG, TEXAS

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

Fiscal year ended September 30, 2018

	Budget Amounts		GAAP Basis Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
General property taxes	\$ 3,229,500	\$ 3,229,500	\$ 3,047,913	\$ (181,587)
General sales and use taxes	5,600,000	5,600,000	5,987,378	387,378
Hotel occupancy tax	3,262,000	3,262,000	3,242,427	(19,573)
Other taxes	491,900	491,900	488,920	(2,980)
Franchise fees	277,000	277,000	316,755	39,755
License and permits	125,900	125,900	219,427	93,527
Charges for services	-	-	-	-
Fines	90,350	90,350	93,076	2,726
Pavilion and camping fees	497,000	497,000	588,956	91,956
Rentals	81,800	81,800	112,445	30,645
Intergovernmental revenue	631,100	631,100	609,566	(21,534)
Grants	87,049	87,049	104,227	17,178
Investment earnings	35,350	35,350	110,289	74,939
Other revenues	<u>757,700</u>	<u>757,700</u>	<u>718,491</u>	<u>(39,209)</u>
Total revenues	<u>15,166,649</u>	<u>15,166,649</u>	<u>15,639,870</u>	<u>473,221</u>
Expenditures:				
Municipal court	186,786	186,786	178,779	8,007
Engineering	237,849	237,849	217,400	20,449
Administration	1,778,302	1,778,302	1,383,672	394,630
Tourism	3,159,673	3,159,673	3,040,761	118,912
Police	4,696,902	4,696,902	4,605,105	91,797
Fire	1,177,085	1,177,085	1,118,086	58,999
Emergency management	165,247	165,247	162,809	2,438
Streets	1,644,191	1,644,191	1,469,324	174,867
Parks	1,623,835	1,623,835	1,592,594	31,241
Health	208,809	208,809	195,011	13,798
Food and wine festival	193,900	193,900	151,916	41,984
Development services	666,709	666,709	653,095	13,614
Debt service:				
Principal	379,682	379,682	381,859	(2,177)
Interest and fiscal charges	9,250	9,250	8,078	1,172
Capital outlays	<u>994,750</u>	<u>994,750</u>	<u>1,409,254</u>	<u>(414,504)</u>
Total expenditures	<u>17,122,970</u>	<u>17,122,970</u>	<u>16,567,743</u>	<u>555,227</u>

CITY OF FREDERICKSBURG, TEXAS

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

Fiscal year ended September 30, 2018

	Budget Amounts		GAAP Basis	Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Excess (deficiency) of revenues over (under) expenditures	\$ (1,956,321)	\$ (1,956,321)	\$ (927,873)	\$ 1,028,448
Other financing sources (uses):				
Sale of real and personal property	32,500	32,500	726,104	693,604
Transfers in	1,645,669	1,645,669	1,785,600	139,931
Transfers out	337,500	337,500	(1,437,123)	(1,774,623)
Proceeds from issuance of debt	<u> -</u>	<u> -</u>	<u>426,240</u>	<u>426,240</u>
Total other financing sources (uses)	<u>2,015,669</u>	<u>2,015,669</u>	<u>1,500,821</u>	<u>(514,848)</u>
Net change in fund balance	<u>59,348</u>	<u>59,348</u>	<u>572,948</u>	<u>513,600</u>
Fund balance - beginning of year	<u>6,775,180</u>	<u>6,775,180</u>	<u>6,775,180</u>	<u>-</u>
Fund balance - end of year	<u>\$ 6,834,528</u>	<u>\$ 6,834,528</u>	<u>\$ 7,348,128</u>	<u>\$ 513,600</u>

CITY OF FREDERICKSBURG, TEXAS

**TMRS NET PENSION LIABILITY
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

For the measurement year ended December 31,

	Measurement Year	
	2017	2016
Total Pension Liability		
Service cost	\$ 1,074,769	\$ 1,004,489
Interest (on the total pension liability)	2,674,435	2,528,093
Changes of benefit terms	-	-
Difference between expected and actual experience	301,986	(47,068)
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	<u>(1,316,569)</u>	<u>(1,388,695)</u>
Net change in total pension liability	2,734,621	2,096,819
Total pension liability - beginning	<u>39,742,157</u>	<u>37,645,338</u>
Total pension liability - ending (a)	<u><u>\$ 42,476,778</u></u>	<u><u>\$ 39,742,157</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 931,010	\$ 843,151
Contributions - employee	488,976	455,757
Net investment income	4,877,963	2,235,297
Benefit payments, including refunds of employee contributions	(1,316,569)	(1,388,695)
Administrative expense	(25,272)	(25,238)
Other	<u>(1,282)</u>	<u>(1,360)</u>
Net change in plan fiduciary net position	4,954,826	2,118,912
Plan fiduciary net position - beginning	<u>35,185,166</u>	<u>33,066,254</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 40,139,992</u></u>	<u><u>\$ 35,185,166</u></u>
Net pension liability (a) - (b)	<u><u>\$ 2,336,786</u></u>	<u><u>\$ 4,556,991</u></u>
Plan fiduciary net position as a percentage of total pension liability	94.50%	88.53%
Covered payroll	<u><u>\$ 9,779,519</u></u>	<u><u>\$ 9,115,142</u></u>
Net pension liability as a percentage of total covered payroll	23.89%	49.99%

*GASB 68 requires 10 fiscal years of data to be provided in this schedule. The City will develop the schedule prospectively.

CITY OF FREDERICKSBURG, TEXAS

**TMRS NET PENSION LIABILITY
SCHEDULE OF CONTRIBUTIONS***

For the fiscal year ended September 30,

	<u>2018</u>	<u>2017</u>
Actuarially determined contributions	\$ 958,161	\$ 914,856
Contributions in relation to the actuarially determined contributions	<u>958,161</u>	<u>914,856</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 10,003,972</u>	<u>\$ 9,685,874</u>
Contributions as a percentage of covered payroll	9.58%	9.45%

*GASB 68 requires 10 fiscal years of data to be provided in this schedule. The City will develop the schedule prospectively.

CITY OF FREDERICKSBURG, TEXAS
SCHEDULE OF CHANGES IN TESRS NET PENSION
LIABILITY AND RELATED RATIOS*

For the measurement year ended August 31,

	Measurement Year	
	2017	2016
Total Pension Liability		
City's proportion of the net pension liability	0.731%	0.716%
City's proportionate share of net pension liability	<u>\$ 158,265</u>	<u>\$ 171,852</u>
Plan fiduciary net position as a percentage of the total pension liability	84.26%	81.40%

*GASB 68 requires 10 fiscal years of data to be provided in this schedule. The City will develop the schedule prospectively.

CITY OF FREDERICKSBURG, TEXAS

**TESRS NET PENSION LIABILITY
SCHEDULE OF CONTRIBUTIONS***

For the fiscal year ended September 30,

	<u>2018</u>	<u>2017</u>
Actuarially determined contributions	\$ 55,956	\$ 45,710
Contributions in relation to the actuarially determined contributions	<u>55,956</u>	<u>45,710</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>

*GASB 68 requires 10 fiscal years of data to be provided in this schedule. The City will develop the schedule prospectively.

CITY OF FREDERICKSBURG, TEXAS

**SCHEDULE OF CHANGES IN OTHER POSTEMPLOYMENT
BENEFIT LIABILITY AND RELATED RATIOS***

For the measurement year ended December 31,

	Measurement Year <u>2017</u>
Total OPEB liability	
Service cost	\$ 18,581
Interest (on the total OPEB liability)	17,987
Changes of benefit terms	-
Difference between expected and actual experience	-
Change of assumptions	43,885
Benefit payments **	<u>(4,891)</u>
Net change in total OPEB liability	75,562
Total OPEB liability - beginning	<u>468,990</u>
Total OPEB liability - ending	<u>\$ 544,552</u>
Covered payroll	<u>\$ 9,779,519</u>
OPEB liability as a percentage of total covered payroll	5.57%

*GASB 75 requires 10 fiscal years of data to be provided in this schedule. This is the first year of implementation of GASB 75. The City will develop the schedule prospectively.

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

CITY OF FREDERICKSBURG, TEXAS

**OTHER POSTEMPLOYMENT BENEFIT PLAN LIABILITY
SCHEDULE OF CONTRIBUTIONS***

For the fiscal year ended September 30,

	<u>2018</u>
Actuarially determined contributions	\$ 22,286
Contributions in relation to the actuarially determined contributions	<u>22,286</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered payroll	<u>\$ 10,003,972</u>
Contributions as a percentage of covered payroll	0.22%

*GASB 75 requires 10 fiscal years of data to be provided in this schedule. This is the first year of implementation of GASB 75. The City will develop the schedule prospectively.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2018

(1) Budget information

The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council and as such is a good management control device.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level. The City Manager may transfer budgeted amounts within departments within any fund; however, transfers between departments and funds must be approved by City Council.

(2) Schedule of contributions – net pension liability

Valuation date:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation method	10 year smoothed market, 15% soft corridor
Inflation	2.50%
Salary increases	3.5% to 10.50% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other information:

There were no benefit changes during the year.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2018

(3) Schedule of contributions – other postemployment benefit liability

Valuation date:

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

Methods and assumptions used to determine Contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset Valuation Method	10 Year Smoothed Market, 15% Soft Corridor
Inflation	2.50%
Salary increases	3.5% to 10.50% including inflation
Discount rate *	3.31%
Retiree' share of benefit related costs	\$-0-
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates - service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by and are projected on a fully generational basis with scale BB.
Mortality rates - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both male and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

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

Other information:

There were no benefit changes during the year.