

**CITY OF DE LEON,
DE LEON, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

City of De Leon
Annual Financial Report
for the Year Ended September 30, 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-10
Basic Financial Statements	
<u>Government-wide Financial Statements</u>	
Statement of Net Assets	11-12
Statement of Activities	13-14
<u>Governmental Fund Financial Statements</u>	
Balance Sheet	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balance	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	18
<u>Proprietary Fund Financial Statements</u>	
Statement of Net Assets	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets	20
Statement of Cash Flows	21
<u>Fiduciary Fund Financial Statements</u>	
Statement of Fiduciary Net Assets	22
Statement of Activities	23
Notes to Financial Statements	24-49
Required Supplementary Information Other Than Management's Discussion and Analysis	
<u>Budgetary Comparison Schedule - Major Governmental Funds</u>	
General Fund	50
TMRS Schedule of Funding Progress	51
Compliance and Internal Control Section	
Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.	52-53
Schedule of Findings and Questioned Costs	54
Corrective Action Plan	55
Schedule of Prior Audit Findings	56

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Independent Auditor's Report

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To the Honorable Mayor
And City Council
City of De Leon
De Leon, Texas

Report on Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of De Leon, Texas as of and for the year ended September 30, 2017, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 City'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 City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of De Leon, Texas as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

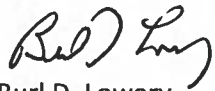
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have issued my report dated March 23, 2018, 2017, on my consideration of the City of De Leon's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of De Leon's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Burl D. Lowery".

Burl D. Lowery
Certified Public Accountant

Brownwood, Texas
March 23, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

- The City's total combined net assets were \$4,595,121 at September 30, 2017 and \$4,418,853 at September 30, 2016.
- During the year, the City's expenses were \$276,147, more than the \$1,178,937 generated in taxes and other revenues for governmental activities before transfers from the Water and Sewer Fund.
- The total cost of the City's programs in the governmental activities was \$1,455,084.
- The general fund reported a fund balance this year of \$37,569.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts-*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual* parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as water and sewer.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee* or *agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report information about the City's net assets and how they have changed. Net assets-the difference between the City's assets and liabilities- is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as fire, police and streets, and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*-not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*-Most of the City's basic services are included in governmental funds, which focus on (1) how *cash* and *other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*-Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- *Fiduciary funds*-The City is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds consist of the Cemetery Trust Fund.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were \$4,595,121 at September 30,2017.

Changes in net assets. The City's total governmental revenues were \$1,178,937. A significant portion, 30%, of the City's revenue comes from property taxes and 25% relates to charges for services.

The total cost of all governmental type programs and services was \$1,478,358; 24% of these costs are for police and 17% are for general administration.

Governmental Activities

- Property tax values have remained fairly stable for the City. Revenues from property taxes were \$356,373 for the 2016-2017 fiscal year.
- Revenues of the Water and Sewer Fund from customers was \$1,160,517 for the 2016-2017 fiscal year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types in the individual funds totaled \$1,178,128, and \$1,213,605 in the proprietary funds. The City's property tax base and number of utility customers has remained stable.

General Fund Budgetary Highlights

Over the course of the year, the City did revised its budget. Actual expenditures were \$879,795 less than the final budget amounts of the General Fund.

On the other hand, resources available were \$99,300 more than the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had invested \$8,932,463 in a broad range of capital assets, including land, equipment buildings, and vehicles. There were \$54,171 of additions during the current year.

The City's fiscal year 2017-2018 general fund budget does not include any new construction contracts.

Long Term Debt

At year-end the City had \$2,089,097 outstanding long-term debt including certificates of obligation of \$1,930,000. More detailed information about the City's debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value and utility customers used for the 2017-2018 budget preparation is approximately the same as the appraised value and number of utility customers for the 2016-2017 budget.
- General operating fund spending decreases in the 2017-2018 budget from \$2,254,381 to \$1,585,886. This is a decreases of 29%.

These indicators were taken into account when adopting the general fund budget for 2017-2018. Amounts available for appropriation in the general fund budget are \$1,585,886 an increase of 21 percent over the final 2016-2017 budget of \$1,309,424.

If these estimates are realized, the City's budgetary general fund balance is not expected to materially change during the 2017-2018 fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

City of De Leon
Management Discussion and Analysis - Tables
Financial Analysis for the City as a Whole

Table 1

City of De Leon's Net Assets

	Governmental Activities		Business-type Activities	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
ASSETS				
Current Assets:				
Cash and cash equivalents	\$250,188	\$315,155	\$387,123	\$365,201
Accounts Receivable:				
Ad valorem taxes net of uncollectible	\$44,951	\$41,226		
Customers and others	\$28,988	\$27,413	\$185,497	\$108,228
Other receivables	\$0	\$0		
Inventories			\$8,889	\$7,239
Deposit on water meters			\$0	\$0
Due from other funds	\$46,338	\$24,312		
Total Current Assets	\$370,465	\$408,106	\$581,509	\$480,668
Restricted Assets:				
Cash and investments - debt service			\$85,165	\$69,727
Due from utility fund			\$8,644	\$8,644
Escrow TWDP - waterline construction			\$0	\$0
Cash and investments - construction wastewater plant			\$671	\$91
Escrow account - water meters			\$0	\$0
Escrow account - construction wastewater plant			\$67,796	\$67,796
Total Restricted Assets:			\$162,276	\$146,258
Capital Assets:				
Infrastructure	\$380,000	\$380,000	\$5,126,511	\$5,126,511
Buildings and improvement	\$1,956,415	\$1,956,415		
Machinery and equipment	\$946,599	\$892,428	\$523,118	\$523,118
Work in progress	\$0	\$0	\$0	\$0
Accumulated depreciation	(\$1,576,336)	(\$1,542,264)	(\$1,503,640)	(\$1,374,155)
Total Capital Assets	\$1,706,678	\$1,686,579	\$4,145,989	\$4,275,474
Other Assets	0	0	0	0
Total Assets	\$2,077,143	\$2,094,685	\$4,889,774	\$4,902,400
Deferred Outflows	\$25,087	\$45,007		
LIABILITIES				
Accounts payable & accrued expenses	\$69,804	\$134,316	\$17,511	\$46,406
Due to other funds	\$106,309	\$71,918	\$8,644	\$8,644
Customer meter deposits			\$64,130	\$65,646
Noncurrent liabilities:				
Due within one year	\$13,329	\$0	\$203,241	\$196,901
Net Pension Liability	\$35,560	\$41,307		
Due in more than one year	\$27,914	\$0	\$1,844,613	\$2,047,854
Total Liabilities	\$252,916	\$247,541	\$2,138,139	\$2,365,451
Deferred Inflows of Resources	\$5,828	\$10,247		
NET POSITION				
Invested in capital assets, net of related debt	\$1,665,435	\$1,686,579	\$2,128,135	\$2,030,719
Restricted for:				
Debt service			\$68,467	\$78,371
Construction			\$93,809	\$67,887
Unrestricted	\$178,051	\$195,325	\$461,224	\$359,972
Total Net Position	\$1,843,486	\$1,881,904	\$2,751,635	\$2,536,949

City of De Leon

Management Discussion and Analysis - Tables

Financial Analysis for the City as a Whole

Table 2

City of De Leon's Changes in Net Assets

	Governmental Activities		Business-type Activities	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Program Revenues:				
Charges for services	\$296,111	\$314,312	\$1,160,517	\$1,110,128
Operating grants	\$22,571	\$0		
Capital grants	\$0	\$0		
General Revenues:				
Property taxes	\$366,657	\$361,057		
Other taxes	\$354,873	\$385,095		
Fines and forfeitures	\$27,972	\$22,142		
Investment earnings	\$893	\$1,256	\$1,425	\$1,155
Other revenues	\$109,860	\$165,063	\$51,663	\$45,606
Note forgiveness income			\$0	\$0
Transfers in	\$237,729	\$340,000	\$0	\$0
Total Revenues	\$1,416,666	\$1,588,925	\$1,213,605	\$1,156,889
Expenditures:				
Central government	\$267,001	\$446,149		
Tax collection	\$3,480	\$3,523		
Animal shelter	\$15,797	\$17,673		
Solid waste	\$280,984	\$284,486		
City court	\$64,756	\$56,220		
Canine unit	\$0	\$0		
Police	\$313,340	\$324,519		
Highways and streets	\$236,859	\$199,833		
Dispatch service	\$55,849	\$54,512		
Code enforcement	\$0	\$0		
Library	\$74,878	\$74,625		
Fire department	\$69,432	\$69,857		
Fire marshal	\$0	\$0		
Cemetery maintenance	\$23,472	\$23,812		
Park	\$5,751	\$6,387		
Senior citizens	\$41,562	\$43,170		
De Leon Informaiton Center	\$0	\$1,200		
Police training	\$0	\$0		
Other	\$240	\$240		
Waterline	\$0	\$0		
Water & sewer expenses			\$778,919	\$890,954
Debt origination fees			\$0	\$0
Amortization of loan issuance costs	\$0	\$0		
Debt service - interest expense	\$1,683	\$898		
Transfers out			\$220,000	\$340,000
Total Expenditures	\$1,455,084	\$1,607,104	\$998,919	\$1,230,954
Change in Net Position	(\$38,418)	(\$18,179)	\$214,686	(\$74,065)
Prior period adjustments	\$0	\$11,158	\$0	\$0
Net Position Beginning of Year	\$1,881,904	\$1,888,925	\$2,536,949	\$2,611,014
Net Position End of Year	\$1,843,486	\$1,881,904	\$2,751,635	\$2,536,949

City of De Leon

Management Discussion and Analysis - Tables

Financial Analysis for the City as a Whole

Table 3

City of De Leon's Capital Assets

	Governmental Activities		Business-type Activities	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Infrastructure	\$380,000	\$380,000	\$5,126,511	\$5,126,511
Buildings and improvements	\$1,956,415	\$1,956,415		
Machinery and equipment	\$946,599	\$892,428	\$523,118	\$523,118
Work in progress	\$0	\$0	\$0	\$0
Less accumulated depreciation	(\$1,576,336)	(\$1,542,264)	(\$1,503,640)	(\$1,374,155)
Total Capital Assets	\$1,706,678	\$1,686,579	\$4,145,989	\$4,275,474

Table 4

City of De Leon's Long-term Debt

	Governmental Activities		Business-type Activities	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Tax anticipation note	\$0	\$0	\$0	\$0
Tax and revenue certificates	\$0		\$1,930,000	\$2,070,000
Net pension liability	\$41,243	\$41,307		
Capital leases payable	\$0	\$0	\$117,854	\$174,755
Total Long-term Debt	\$41,243	\$41,307	\$2,047,854	\$2,244,755

Basic Financial Statements

City of De Leon
Statement of Net Assets
September 30, 2017

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	Primary Government
ASSETS			
Cash and investments	\$250,188	\$387,123	\$637,311
Receivables (net of allowance for uncollectible taxes, where applicable)			\$0
Delinquent ad valorem taxes	\$44,951		\$44,951
Customers and other	\$28,988	\$185,497	\$214,485
Other receivables	\$0		\$0
Prepaid expenses - deposit on water meters	\$0	\$0	\$0
Inventories		\$8,889	\$8,889
Restricted Assets:			
Cash and investments		\$162,276	\$162,276
Internal balances	\$46,338		\$46,338
Capital assets:			\$0
Infrastructure	\$380,000	\$5,126,511	\$5,506,511
Buildings & improvements	\$1,956,415		\$1,956,415
Machinery & equipment	\$946,599	\$523,118	\$1,469,717
Work in progress - waterline	\$0	\$0	\$0
Accumulated depreciation	(\$1,576,336)	(\$1,503,640)	(\$3,079,976)
Total Assets	\$2,077,143	\$4,889,774	\$6,966,917
Deferred Outflows:			
Deferred pension related outflows	\$25,087		\$4,482
LIABILITIES			
Accounts payable and accrued expenses	\$69,804	\$17,511	\$87,315
Due to other funds	\$106,309	\$8,644	\$114,953
Customer meter deposits		\$64,130	\$64,130
Deferred revenues	\$0		\$0
Noncurrent liabilities:			\$0
Due within one year	\$13,329	\$203,241	\$216,570
Due in more than one year	\$27,914	\$1,844,613	\$1,872,527
Net pension liability	\$35,560		4,755
Total Liabilities	\$252,916	\$2,138,139	\$2,360,250
Deferred Inflows:			
Deferred pension related inflows	\$5,828		\$6,159
NET POSITION			
Invested in capital assets, net of related debt	\$1,665,435	\$2,128,135	\$3,793,570
Restricted for:			
Construction		\$68,467	\$68,467
Debt service		\$93,809	\$93,809
Cemetery care			
Unrestricted	\$178,051	\$461,224	\$639,275
Total Net Position	\$1,843,486	\$2,751,635	\$4,595,121

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

Component Units		Totals Reporting Entity
De Leon Industrial Dev. Corp	De Leon Public Facilities Corporation	
\$239,368	\$105,497	\$982,176
		\$0
		\$0
		\$44,951
		\$214,485
\$15,830		\$15,830
		\$0
	\$24,627	\$33,516
		\$162,276
		\$46,338
		\$0
		\$0
\$50,095	\$46,058	\$5,506,511
		\$2,052,568
		\$1,469,717
		\$0
(\$7,849)	(\$27,900)	(\$3,115,725)
<u>\$297,444</u>	<u>\$148,282</u>	<u>\$7,412,643</u>
		\$25,087
		\$87,315
		\$114,953
		\$64,130
		\$0
		\$0
\$2,993		\$219,563
\$12,449		\$1,884,976
		\$4,755
<u>\$15,442</u>	<u>\$0</u>	<u>\$2,375,692</u>
		\$6,159
\$26,804	\$18,158	\$3,838,532
		\$68,467
		\$93,809
	\$84,863	\$84,863
\$255,198	\$45,377	\$939,850
<u>\$282,002</u>	<u>\$148,398</u>	<u>\$5,025,521</u>

City of De Leon
Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Central government	\$267,001			
Tax collection	\$3,480			
Animal shelter	\$15,797			
Solid waste	\$280,984	\$296,111		
City court	\$64,756			
Canine unit	\$0			
Police	\$313,340	\$0	\$0	\$0
Highways and streets	\$236,859			
Dispatch service	\$55,849			
Code enforcement	\$0			
Library	\$74,878	\$0	\$22,571	\$0
Fire department	\$69,432			
Fire marshal	\$0			
Cemetery maintenance	\$23,472			
Park	\$5,751	\$0	\$0	\$0
Senior citizens	\$41,562			
De Leon Information Center	\$0			
Other	\$240			
Debt service - interest expense	\$1,683	\$0	\$0	\$0
Total Governmental Activities	<u>\$1,455,084</u>	<u>\$296,111</u>	<u>\$22,571</u>	<u>\$0</u>
Business-type Activities:				
Water and sewer	\$778,919	\$1,160,517		
Total Business-type Activities	<u>\$778,919</u>	<u>\$1,160,517</u>	<u>\$0</u>	<u>\$0</u>
Total Primary Government	<u>\$2,234,003</u>	<u>\$1,456,628</u>	<u>\$22,571</u>	<u>\$0</u>
Component Units:				
De Leon Industrial Foundation	\$9,070	\$0		
De Leon Public Facilities Corporation	\$7,588	\$7,418		
Total Component Unit	<u>\$7,588</u>	<u>\$7,418</u>		<u>\$0</u>
General Revenues:				
Property taxes levied for general purposes				
Other taxes				
Fines and forfeitures				
Investment earnings				
Other revenues				
Transfers - net				
Note forgiveness proceeds				
Total general revenues and transfers				
Change in net assets				
Net Assets - Beginning of Year				
Prior period adjustments				
Net Assets - End of Year				

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			Component Units		
Primary Government					
Governmental Activities	Business-type Activities	Total	De Leon Industrial Dev. Corp	De Leon Public Facilities Corporation	Total Reporting Entity
(\$267,001)		(\$267,001)			(\$267,001)
(\$3,480)		(\$3,480)			(\$3,480)
(\$15,797)		(\$15,797)			(\$15,797)
\$15,127		\$15,127			\$15,127
(\$64,756)		(\$64,756)			(\$64,756)
\$0		\$0			\$0
(\$313,340)		(\$313,340)			(\$313,340)
(\$236,859)		(\$236,859)			(\$236,859)
(\$55,849)		(\$55,849)			(\$55,849)
\$0		\$0			\$0
(\$52,307)		(\$52,307)			(\$52,307)
(\$69,432)		(\$69,432)			(\$69,432)
\$0		\$0			\$0
(\$23,472)		(\$23,472)			(\$23,472)
(\$5,751)		(\$5,751)			(\$5,751)
(\$41,562)		(\$41,562)			(\$41,562)
\$0		\$0			\$0
(\$240)		(\$240)			(\$240)
(\$1,683)		(\$1,683)			(\$1,683)
(\$1,136,402)	\$0	(\$1,136,402)	\$0	\$0	(\$1,136,162)
\$0	\$381,598	\$381,598			\$381,598
\$0	\$381,598	\$381,598	\$0	\$0	\$381,598
(\$1,136,402)	\$381,598	(\$754,804)	\$0	\$0	(\$754,564)
			(\$9,070)	\$0	(\$9,070)
			\$0	(\$170)	(\$170)
			(\$9,070)	(\$170)	(\$9,240)
\$366,657		\$366,657			\$366,657
\$354,873		\$354,873	\$47,107		\$401,980
\$27,972		\$27,972			\$27,972
\$0		\$0	\$0	\$0	\$0
\$893	\$1,425	\$2,318	\$134	\$490	\$2,942
\$109,860	\$51,663	\$161,523	\$29,361	\$0	\$190,884
\$237,729	(\$220,000)	\$17,729			\$17,729
\$0	\$0	\$0			\$0
\$1,097,984	(\$166,912)	\$931,072	\$76,602	\$490	\$1,008,164
(\$38,418)	\$214,686	\$176,268	\$67,532	\$320	\$253,600
\$1,881,904	\$2,536,949	\$3,399,123	\$214,470	\$148,078	\$3,761,671
\$0	\$0	\$0			\$0
\$1,843,486	\$2,751,635	\$3,575,391	\$282,002	\$148,398	\$4,015,271

City of De Leon
Balance Sheet
Governmental Funds
September 30, 2017

<u>ASSETS</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals (Memorandum Only)</u>
Cash and cash equivalents	\$150,925	\$99,263	\$250,188
Restricted cash and investments			
Accounts receivable (net of allowance for uncollectible accounts, where applicable):			
Delinquent ad valorem taxes	\$44,951		\$44,951
Customers and others	\$28,988		\$28,988
Prepaid expense			\$0
Due from other funds		\$46,338	\$46,338
Due from other governments			
Other receivables			\$0
Total Assets	<u>\$224,864</u>	<u>\$145,601</u>	<u>\$370,465</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable customers and others	\$36,035	\$6,810	\$42,845
Note payable - short-term			\$0
Due to other funds	\$106,309		\$106,309
			\$0
Total Liabilities	<u>\$142,344</u>	<u>\$6,810</u>	<u>\$149,154</u>
Deferred Inflows of Resources	<u>\$44,951</u>	<u>\$0</u>	<u>\$44,951</u>
Fund Balances:			
Unreserved:			
Designated for other purposes	\$26,959	\$138,791	\$165,750
Unreserved	\$10,610	\$0	\$10,610
Total Fund Balances	<u>\$37,569</u>	<u>\$138,791</u>	<u>\$176,360</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$224,864</u>	<u>\$145,601</u>	<u>\$370,465</u>

The notes to financial statements are an integral part of this statement.

City of De Leon
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Assets
September 30, 2017

Total Fund Balance - Governmental Funds	\$176,360
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

Capital assets	\$3,283,014	
Accumulated depreciation	(\$1,576,336)	\$1,706,678

Property taxes receivable unavailable to pay for current period expenditures are deferred in the governmental funds.

Deferred revenue - ad valorem taxes	\$44,951
-------------------------------------	----------

Long-term liabilities including capital leases are not due and payable in the current period, and therefore are not reported as liabilities in the governmental funds.

(\$41,243)

Net pension liability	(\$35,560)
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Deferred pension related outflows	\$25,087
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Deferred pension related inflows	(\$5,828)
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Accrued compensated absences are not reported as a liability in the governmental funds.

(26,959)

Total Net Position - Governmental Activities	<u>1,843,486</u>
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The accompanying notes are an integral part of this statement.

City of De Leon, Texas
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
All Governmental Fund Types
Year Ended September 30, 2017

	General	Other Government Funds	Totals (Memorandum Only)
REVENUES:			
Ad valorem taxes	\$356,373		\$356,373
Penalty and interest	\$9,475		\$9,475
Other taxes	\$310,069	\$44,804	\$354,873
Fines and forfeitures	\$27,972		\$27,972
Solid waste collection	\$296,111		\$296,111
Rents	\$11,495		\$11,495
Interest	\$76	\$817	\$893
Other	\$97,896	\$627	\$98,523
Police training grant			\$0
Contributions	\$142		\$142
Intergovernmental		\$22,271	\$22,271
Grant proceeds			\$0
Total Revenues	\$1,109,609	\$68,519	\$1,178,128
EXPENDITURES:			
General government	\$254,061		\$254,061
Tax office	\$3,480		\$3,480
Animal shelter	\$15,144		\$15,144
Solid waste	\$280,984		\$280,984
City court	\$62,212		\$62,212
Police	\$350,591		\$350,591
Highways and streets	\$159,899	\$66,942	\$226,841
Dispatch service	\$55,849		\$55,849
Code enforcement	\$0		\$0
Library	\$37,745	\$36,590	\$74,335
Fire department	\$69,432		\$69,432
Fire marshal	\$0		\$0
Cemetery	\$23,472		\$23,472
Park	\$5,544		\$5,544
Senior citizens	\$41,562		\$41,562
De Leon Information Center	\$0		\$0
Maintenance	\$0	\$240	\$240
Parks Improvement	\$0		\$0
Debt Service - Capital Lease Principal	\$13,331		\$13,331
Debt Service - Capital Lease Interest	\$1,280		\$1,280
Debt Service - Tax Anticipation Note Principal			\$0
Debt Service - Tax Anticipation Note Interest			\$0
Total Expenditures	\$1,374,586	\$103,772	\$1,478,358
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(\$264,977)	(\$35,253)	(\$300,230)
OTHER FINANCING RESOURCES (USES):			
Proceeds from capital leases	\$54,171		\$54,171
Proceeds from tax anticipation notes			\$0
Transfers in	\$220,000	\$17,729	\$237,729
Transfers out	\$0		\$0
Net Other Resources (Uses)	\$274,171	\$17,729	\$291,900
EXCESS (DEFICIT) OF REVENUES AND OTHER RESOURCES OVER EXPENDITURES AND OTHER USES	\$9,194	(\$17,524)	(\$8,330)
PRIOR PERIOD ADJUSTMENT	\$0	\$0	\$0
FUND BALANCE BEGINNING OF YEAR	\$28,375	\$156,315	\$184,690
FUND BALANCE END OF YEAR	\$37,569	\$138,791	\$176,360

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

City of De Leon
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
To the Statement of Activities
For the Year Ended September 30, 2016

Total net change in fund balance - governmental funds	(\$8,330)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. In the Statement of Activities, the cost of these expenditures is capitalized.	\$54,171
Depreciation is not recognized in the governmental funds. The Statement of Activities recognizes depreciation on all depreciable assets.	(\$34,071)
Proceeds from capital leases are not recognized as revenue and other resources in the Statement of Activities	(\$54,171)
Proceeds from tax anticipation notes are not recognized as revenue and other resources in the Statement of Activities.	\$0
Principal payments on capital leases are recognized as expenditures in the governmental funds. Principal payments are recognized as a reduction of liabilities in the Statement of Net Assets.	\$12,928
Principal payments on tax anticipation notes are recognized as expenditures in the governmental funds. Principal payments are recognized as a reduction of liabilities in the Statement of Net Assets.	\$0
Because some property taxes are not collected in the fiscal year assessed, the taxes are considered to be "available revenues in the year collected in the governmental funds. Deferred taxes decreased by this amount.	\$809
GASB 68 pension related expenditures	(\$9,754)

Change in net position of governmental activities	<u><u>(38,418)</u></u>
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The accompanying notes are an integral part of this statement.

City of De Leon
Statement of Net Assets
All Proprietary Fund Types
September 30, 2017

	Water & Sewer Fund	Totals Memorandum Only
<u>ASSETS</u>		
Current Assets:		
Cash and investments:		
Cash and cash equivalent	\$387,123	\$387,123
Total Cash and Investments	\$387,123	\$387,123
Accounts receivable:		
Customers and others	\$185,497	\$185,497
Inventory of pipe and supplies	\$8,889	\$8,889
Deposit on water meters	\$0	\$0
Due from other funds	0	0
Total Current Assets	581,509	581,509
Restricted Assets:		
Cash and investments - debt service	\$85,165	\$85,165
Due from utility fund - debt service	\$8,644	\$8,644
Cash - waterline construction	\$671	\$671
Escrow Account Waterline	\$0	\$0
Escrow Account Meters	\$0	\$0
Escrow Account - Construction Wastewater	67,796	67,796
Total Restricted Assets	\$162,276	\$162,276
Capital Assets:		
Distribution system	\$5,126,511	\$5,126,511
Machinery & equipment	\$523,118	\$523,118
Construction in progress	\$0	\$0
Accumulated depreciation	(\$1,503,640)	(\$1,503,640)
Total Capital Assets	\$4,145,989	\$4,145,989
Other Assets:		
Other assets	0	0
Total Other Assets	0	0
Total Assets	\$4,889,774	\$4,889,774
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable & accrued expenses	\$17,511	\$17,511
Tax and revenue certificates due in one year	\$145,000	\$145,000
Capital lease payable due in one year	\$58,241	\$58,241
Due to wastewater revenue fund - debt service	\$8,644	\$8,644
Customer meter deposits	\$64,130	\$64,130
Total Current Liabilities	\$293,526	\$293,526
Long-Term Liabilities:		
Capital lease payable	\$59,613	\$59,613
Tax and revenue certificates	\$1,785,000	\$1,785,000
Total Long-Term Liabilities	\$1,844,613	\$1,844,613
Total Liabilities	\$2,138,139	\$2,138,139
Net Assets:		
Invested in capital assets, net of related debt	\$2,128,135	\$2,128,135
Unrestricted:		
Restricted for construction	\$68,467	\$68,467
Restricted for debt service	\$93,809	\$93,809
Unrestricted	\$461,224	\$461,224
Total Net Assets	\$2,751,635	\$2,751,635
Total Liabilities and Net Assets	\$4,889,774	\$4,889,774

The accompanying notes are an integral part of this statement.

City of De Leon, Texas
Combined Statements of Revenues, Expenses, and Changes in
Retained Earnings - All Proprietary Fund Types
Year Ended September 30, 2017

	Water and Sewer Fund	Totals (Memorandum Only) September 30, 2,017
REVENUES:		
Water Revenue	\$832,503	\$832,503
Sewer Revenue	\$328,014	\$328,014
Interest	\$1,425	\$1,425
Other	\$51,663	\$51,663
Grants	\$0	\$0
Total Revenues	<u>\$1,213,605</u>	<u>\$1,213,605</u>
EXPENSES:		
Personal services	\$177,993	\$177,993
Contractual services	\$387,269	\$387,269
Supplies	\$50,832	\$50,832
Other operating costs	\$16,112	\$16,112
Debt service interest expense	\$17,228	\$17,228
Depreciation	\$129,485	\$129,485
Total Expenses	<u>\$778,919</u>	<u>\$778,919</u>
NET INCOME BEFORE TRANSFERS	<u>\$434,686</u>	<u>\$434,686</u>
TRANSFERS AND OTHER:		
Loan forgiveness proceeds	\$0	\$0
Operating transfers in	\$0	\$0
Operating transfers out	(\$220,000)	(\$220,000)
Total Transfers	<u>(\$220,000)</u>	<u>(\$220,000)</u>
NET INCOME	\$214,686	\$214,686
RETAINED EARNINGS BEGINNING OF YEAR	\$2,536,949	\$2,536,949
PRIOR PERIOD ADJUSTMENT	<u>\$0</u>	<u>\$0</u>
RETAINED EARNINGS END OF YEAR	<u><u>\$2,751,635</u></u>	<u><u>\$2,751,635</u></u>

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

City of De Leon, Texas
Combined Statements of Cash Flows - All Proprietary Fund Types
Year Ended September 30, 2017

	Water & Sewer Fund	Totals (Memorandum Only) September 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$1,081,732	\$1,081,732
Other operating revenues	\$51,663	\$51,663
Cash payments for goods and services	(\$501,986)	(\$501,986)
Cash payments to employees	(\$177,993)	(\$177,993)
Net Cash Provided by Operating Activities	<u>\$453,416</u>	<u>\$453,416</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers-out	(\$220,000)	(\$220,000)
Due to wastewater revenue debt service	\$0	\$0
Loan forgiveness proceeds	\$0	\$0
Principal payment of tax and revenue certificates	(\$140,000)	(\$140,000)
Proceeds from tax and revenue certificates	\$0	\$0
Decrease (increase) in restricted assets	(\$16,018)	(\$16,018)
Proceeds from capital leases	\$0	\$0
Principal payment of capital leases	(\$56,901)	(\$56,901)
Net Cash from Noncapital Financing Activities	<u>(\$432,919)</u>	<u>(\$432,919)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>\$1,425</u>	<u>\$1,425</u>
CASH FLOW FROM CAPITAL AND RELATED ACTIVITIES:		
Contributed capital		
Prior period adjustment	\$0	\$0
Deposit on water meters	\$0	\$0
Acquisition of capital assets	\$0	\$0
Net Cash Flow from Capital and Related Activities	<u>\$0</u>	<u>\$0</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$21,922	\$21,922
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>\$365,201</u>	<u>\$365,201</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$387,123</u></u>	<u><u>\$387,123</u></u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income before operating transfers	\$434,686	\$434,686
Adjustments to reconcile net cash provided by operating activities:		
Depreciation expense	\$129,485	\$129,485
Amortization expense	\$0	\$0
(Increase) decrease in accounts receivable	(\$77,269)	(\$77,269)
(Increase) decrease in inventory	(\$1,650)	(\$1,650)
Increase (decrease) in accounts payable & accrued expenses	(\$28,895)	(\$28,895)
Increase in customer deposits	(\$1,516)	(\$1,516)
Interest income	(\$1,425)	(\$1,425)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$453,416</u></u>	<u><u>\$453,416</u></u>

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

City of De Leon
Statement of Net Assets
All Fiduciary Fund Types
September 30, 2017

	Permanent Trust Funds Cemetery Trust Fund	Totals Memorandum Only
	<hr/>	<hr/>
<u>ASSETS</u>		
Cash and cash equivalents	\$177,366	\$177,366
Due from other funds	15,597	15,597
	<hr/>	<hr/>
Total Assets	<u>192,963</u>	<u>192,963</u>
	<hr/>	<hr/>
<u>LIABILITIES</u>		
Due to Special Projects Fund	0	0
	<hr/>	<hr/>
Total Liabilities	0	0
	<hr/>	<hr/>
Net Assets:		
Restricted for cemetery care	192,963	192,963
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>192,963</u>	<u>192,963</u>
	<hr/>	<hr/>

The accompanying notes are an integral part of this statement.

City of De Leon
Statement of Revenue, Expenditures, and Changes in Net Assets
All Fiduciary Fund Types
For the Year Ended September 30, 2017

	Permanent Trust Funds Cemetery Trust Fund	Totals Memorandum Only
Revenues:		
Interest earned	\$75	\$75
Other including lot sales	\$0	\$0
Donations	0	0
	<hr/>	<hr/>
Total Revenues	75	75
	<hr/>	<hr/>
Expenditures:		
Cemetery special projects fund	0	0
	<hr/>	<hr/>
Total Expenditures	0	0
	<hr/>	<hr/>
Excess (Deficit) of Revenues over Expenditures	\$75	\$75
Transfer to Special Projects Fund	(\$17,729)	(\$17,729)
Net Assets Beginning of Year	210,617	210,617
	<hr/>	<hr/>
Net Assets End of Year	192,963	192,963
	<hr/> <hr/>	<hr/> <hr/>

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

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

Note 1 – Description of City and Reporting Entity

The City of De Leon was incorporated under the provisions of the State of Texas. The City is a home rule city and operated under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health and social services, culture, recreation, public improvements, and general administrative services. Other services include utilities.

Financial Reporting Entity

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

Component Units:

The Comanche Gardens of Memory, Inc. transferred its privately owned cemetery, perpetual care fund, cash on hand, and equipment to the De Leon Public Facilities Corporation on February 13, 2001. The De Leon Public Facilities Corporation was created by the City of De Leon to own and operate the Gardens of Memory Cemetery. The City Council appoints the directors of the De Leon Public Facilities Corporation and oversees its operations. The fiscal year of the corporation is the same as the City's fiscal year. The De Leon Industrial Development Corporation collects sales taxes to promote industrial development in the City of De Leon. The board of directors of the De Leon Industrial Development Corporation are appointed by the City Council of the City of De Leon. The fiscal year of the De Leon Industrial Development Corporation is the same as the City's fiscal year.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the City of De Leon have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applied Financial Accounting Standards Board (FASB) Statements issued on or before November 30, 1989 to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB pronouncements issued after November 30, 1989 to its business-type activities or enterprise funds. The most significant of the City's accounting principles are described as follows:

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and (2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at the more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund – The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in the other funds.

Cemetery Trust Fund – The Cemetery Trust Fund is a permanent fund. The City in agreement with the De Leon Cemetery Association, a legally separate entity, has restricted the use of the Cemetery Trust Funds to only earnings and not principal. These earnings are transferred to a Cemetery Special Projects Fund for use in maintaining and improving the De Leon Cemetery.

Nonmajor funds are aggregated and presented in a single column. The City's nonmajor governmental funds are as follows:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted to expenditures for specific purposes.

Proprietary Funds

Proprietary funds reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The City's proprietary funds are all classified as enterprise funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. All of the City's enterprise funds are major funds.

Water and Sewer Fund – The Water and Sewer Fund is used to account for operation of the water and sewer departments of the City. The fund's operations are financed primarily through user charges.

B. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents the operations of the City in a format that reports the net revenues (expenses) of its individual functions.

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of the current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of the governmental funds.

Like government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of changes in revenues, expenses, and changes in fund net assets presents revenues and expenses in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

C. Basis of Accounting

Government-wide Financial Statements and Proprietary Fund Financial Statements

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting.

Under the accrual basis of accounting, revenues are recognized when earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual: i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Major revenue sources susceptible to accrual are property taxes, franchise taxes, special assessments, licenses, and charges for services. The City considers property taxes as available when they are collected. Fines and permits are recorded as revenues when received. Sales taxes are collected by the State of Texas and subsequently remitted to the City and are recognized as revenue when received by the City. Grant funds are earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as deferred revenue until earned.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

D. Budget Process

Prior to October 1 of each year the Mayor submits to the City Council a proposed operating budget for the upcoming fiscal year. The operating budget includes proposed expenditures and the means of financing them. The City holds a public hearing on the proposed budget at least ten days prior to adoption as required by law. Prior to October 1 each year the budget is legally enacted through the passage of an ordinance.

The City uses a modified accrual basis for budgeting in governmental funds. The major governmental fund – General Fund is presented in budgetary comparison schedules as required supplemental information. Nonmajor governmental funds that adopt budgets present budgetary comparison schedules in other supplemental information.

The budgetary comparison schedules shown in the accompanying supplemental information present comparisons of the legally adopted budget, as amended, with actual results. The originally adopted budget is presented for purposes of comparison to the final, amended budget.

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Proprietary Funds consider all highly liquid investments with a maturity of three months or less at the time of purchase as cash equivalents.

F. Inventories

The City uses the purchases method of accounting for inventories for all areas except the Water and Sewer Fund supplies. Under the purchases method materials and supplies are recorded as expenditures when purchased.

The supplies in the Water and Sewer Fund are expended when used. A physical inventory of the supplies is performed as of the end of the fiscal year. The inventory is valued at cost on the first-in first-out method.

G. Restricted Cash

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

H. Capital Assets

General capital assets are capital assets that are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are reported at their fair market value as of the date received. The City's infrastructure consists of City streets, streetlights, and signs, and water and sewer systems. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacements.

Capital outlays are recorded as expenditures of the General and Special Revenue Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold of \$5,000 is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method.

To the extent the City's capitalization threshold of \$5,000 is met, capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives in both the fund financial statements and the government-wide financial statements using a straight-line method.

The following estimated useful lives in years are used in computing the straight-line depreciation:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Buildings and improvements	40	40
Machinery and equipment	5-10	5-10
Vehicles	5-10	5-10
Infrastructure	40	40

I. Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the Government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary fund types are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources, are reported as obligations of the funds. Long-term loans and leases are recognized as a liability on the governmental fund financial statements when due.

J. Governmental Fund Committed Fund Balances

The City commits portions of fund balances which are legally segregated for a specific future use.

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

K. Net Position

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement on their use through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer, and sanitation.

M. Contributions of Capital

Contributions of capital in the proprietary fund financial statements arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction.

N. Interfund Receivables and Payables

During the course of operations, many transactions occur between individual funds for various reasons. The short-term receivables and payables between the individual funds are classified as "Interfund Receivables" and "Interfund Payables".

Permanent transfers of revenues between funds are classified as "Transfers in" and "Transfers out" in the individual funds. The Council approves the permanent transfers of funds at the Council meetings. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

Transfers between governmental and business-type activities on the government-wide statement of activities are reported in the same manner as general revenues. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the statement of net assets as "internal balances".

O. 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 certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

amounts of revenues and expenditures/expenses during the reporting period. As such, actual results could differ from those estimates.

P. Compensated Absences

Vacation and sick leave benefits are accrued monthly as earned. The liability for these accrued benefits is reported as accrued compensated balances. This liability is reported as a current liability in the proprietary fund types, and as a general long-term liability in the governmental funds, except for the portion deemed to be current, if any.

Q. Risk Management

The City is exposed to various risks related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year 2017, the City purchased insurance coverage to cover potential risks. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

R. Change in Accounting Principles

The City adopted GASB 68 in the 2014-2015 year which addresses net pension liability which is more fully disclosed in Note 12.

Note 3 – Deposits and Investments

Primary Government

The City maintains a cash pool, which includes the cash balances of the General Fund and Water and Sewer Fund. The Cemetery Trust Fund and the remaining Special Revenue Funds maintain their separate bank accounts and banking records.

Deposits – 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 market value of not less than the principal amount of the deposits. The Farmers and Merchants Bank of De Leon, Texas is the primary depository of the City.

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

At September 30, 2017, the City had the following cash and investments:

	Carrying <u>Amount</u>	Bank <u>Balances</u>
Primary Government:		
Petty Cash	\$882	
Cash in Bank:		
Governmental Activities	171,813	140,739
Business-type Activities	176,484	187,633
Investments:		
Governmental Activities:		
Certificates of Deposit	76,827	76,827
TEXPOOL	1,295	1,295
Business-type Activities:		
Certificates of Deposit	-0-	-0-
TEXPOOL	210,010	210,010
Restricted for Debt Service	85,165	71,165
Restricted for Construction		
Cash in Bank	671	14,671
US Bank Construction Escrow	67,796	67,796
Fiduciary Funds	177,366	177,366
Total Primary Government	<u>\$ 968,309</u>	<u>947,502</u>

As of September 30, 2017, the total bank balance above was covered by FDIC coverage in the amount of \$250,000 and pledged securities which were pledged by the Farmers and Merchants Bank to the City.

The City's deposits are categorized to give an indication of the level of risk assumed by the City at year-end.

Category 1 includes deposits that are insured or registered of for which the securities held by the City or its agent in the City's name.

Category 2 includes uninsured and unregistered deposits for which securities are held by the counterparty's trust department or agent in the City's name.

Category 3 includes uninsured and unregistered deposits for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

Based on these levels of risk, all of the City's deposits are classified as Category 1.

Deposits – Component Units

The Farmers and Merchants Bank is the authorized depository for the De Leon Public Facilities Corporation and the Industrial Development Corporation.

At September 30, 2017, cash and investments were invested as follows:

	<u>Carrying Amount</u>	<u>Bank Balances</u>
Component Unit:		
Cash in Bank	\$ 260,388	261,050
Certificates of Deposit	84,681	84,681
Total Cash and Investments	<u>\$345,069</u>	<u>345,731</u>

The De Leon Public Facilities Corporation and the Industrial Development Corporation are also categorized to give an indication of the level of risk assumed by the Corporation at year-end. Based on the three levels of risk discussed above, all of the Corporation's deposits are classified as Category 1.

Investments – Primary Government

The City is required by Government Code Chapter 2256, Public Funds Investment Act, to adopt, implement, and publicize an investment policy. The Public Funds Investment Act requires an annual audit of the investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas on investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act.

The Act determines the types of investment, which are allowable for the City. These include, with certain restrictions, (1) obligations of the U. S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

The City's investments consist of certificates of deposit and deposits with TEXPOOL. All of the certificates of deposit are fully collateralized with FDIC coverage and pledged securities.

The carrying amount by type of investment is classified into the following three categories of credit risk:

Category 1 – Insured, registered, or securities held by the entity or its agent in the entity's name.

Category 2 – Uninsured or unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3 – Uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent but not in the City's name.

The City's investments at September 30, 2017 are as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Primary Government:					
Time Deposits	\$76,827			76,827	76,827
TEXPOOL				211,305	211,305
Total Primary Government	<u>\$76,827</u>	<u></u>	<u></u>	<u>288,182</u>	<u>288,182</u>
Component Units:					
Time Deposits	<u>\$84,681</u>	<u></u>	<u></u>	<u>84,681</u>	<u>84,681</u>

Public Funds Investment Pool – Public funds investment pools in Texas are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; (3) maintain a market value of its underlying investment portfolio within one half of one percent of its shares.

The City's investment in Pools are reported at an amount determined to be fair value per share of the pool's underlying portfolio, unless the pool is a 2a-7 like, in which

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

case they are reported at share value. A 2a-7 like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with SEC's Rule 2a7 of the Investment Company Act of 1940.

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk, but had these investments:

TEXPOOL \$211,305 AAA Rated

b. Custodial Risk

Deposits are exposed to custodial risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent in the City's name.

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

The risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end the City was not exposed to interest rate risk.

c. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Note 5 – Property Taxes

Taxes are levied each October 1 and the tax rate is set by the Council. Taxes are based on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the City.

Taxes are due on October 1, the levy date, and are delinquent after the following January 31. Tax liens are automatic on January 1 each year. All uncollected taxes are reclassified as delinquent as of July 1 each year. At that time, 15% collection costs may be added to all delinquent accounts.

Property taxes are recorded as receivables and deferred revenues at the time the taxes are assessed. In governmental funds, revenues are recognized as the related ad valorem taxes are collected. In the government-wide financial statements, the entire levy is recognized as revenue, net of estimated uncollectible amounts, at the time of the levy.

Taxes are collected by the City's tax office which operates jointly with the De Leon Independent School District.

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

Note 6 – Receivables

The receivables of the City of De Leon as of September 30, 2017 are as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Business-Type Activities Water & Sewer</u>	<u>Total</u>
Delinquent ad valorem taxes	\$59,935			59,935
Customers and other	41,250		185,497	226,747
Other				
 Total Gross Receivables	<u>\$101,185</u>	<u> </u>	<u>185,497</u>	<u>286,682</u>
 Less allowance for uncollectible accounts	 27,246			 27,246
 Net Receivables	 <u>\$ 73,939</u>	 <u> </u>	 <u>185,497</u>	 <u>259,436</u>

Governmental Activities (General Fund) recognize an allowance for uncollectible taxes based on historical tax collection data. . Historically write-offs of bad debts in the Water and Sewer Fund have not been material.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. Deferred revenues in the governmental funds at September 30, 2017 consisted of the following:

Unavailable:

Delinquent property taxes, net	\$44,951
Waterline grant	-0-

Total Unavailable Revenue	<u>\$44,951</u>
---------------------------	-----------------

Note 7 – Interfund Receivables and Payables

Fund Financial Statements

The interfund receivables and payables at September 30, 2017 are as follows:

Due to: Cemetery Trust Fund	\$15,597
Road Maintenance Fund	46,338
Industrial Development	15,830

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

Wastewater Debt Service	22,644
	<u> </u>
Total Due to	\$100,409
	<u> </u>
Due from: General Fund	\$77,765
Utility Fund	22,644
	<u> </u>
Total Due from	\$100,409
	<u> </u>
These interfund balances will be paid within the current year.	
During the year ended September 30, 2017, the City made the following permanent transfers between funds:	
Transfers from:	
Enterprise Fund:	
Water and Sewer Fund	\$220,000
Governmental Funds:	
General Fund	-0-
	<u> </u>
Total Transfers from	\$220,000
	<u> </u>
Transfers to:	
Governmental Activities:	
General Fund	\$220,000
Proprietary Fund:	
Special Revenue Fund	-0-
	<u> </u>
Total Transfers to	\$220,000
	<u> </u>

Permanent transfers between the Water and Sewer Fund and the General Fund are made annually to supplement the General Fund's resources. Transfers between the Water and Sewer Fund and the Special Revenue – Wastewater Improvement Fund are made monthly to provide resources to improve the City's wastewater treatment plant.

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

Note 8 – Capital Assets

Capital assets activity for the year ended September 30, 2017 is as follows:

	<u>Balance</u> <u>10-1-2016</u>	<u>Additions/</u> <u>Adjustments</u>	<u>Retirement/</u> <u>Adjustments</u>	<u>Balance</u> <u>9-30-2017</u>
Governmental Activities				
Infrastructure	\$380,000			380,000
Buildings & improvements	1,956,415			1,956,415
Machinery & equipment	892,428	54,171		946,599
 Total Assets Being Depreciated	 3,228,843	 54,171		 3,283,014
Less accumulated Depreciation	1,542,264		34,071	1,576,335
 Net Governmental Assets	 <u>1,686,579</u>	 <u>54,171</u>	 <u>34,071</u>	 <u>1,706,679</u>
 Business-type Activities				
Infrastructure	\$5,126,511	-0-		5,126,511
Machinery & equipment	523,118	-0-		523,118
 Total Assets Being Depreciated	 5,649,629	 -0-		 5,649,629
Less accumulated Depreciation	1,374,155		129,485	1,503,640
 Net Business-Type Assets	 <u>\$4,275,474</u>	 <u>-0-</u>	 <u>129,485</u>	 <u>4,145,989</u>

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

Governmental Activities:	
General Administration	\$ 9,467
Street Department	8,452
Police Department	13,063
Municipal Court	2,318
Animal shelter	564
Park	207
 Total Governmental Activities	 <u>\$34,071</u>

Business-type Activities:

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

Water and Sewer Department	\$129,485
	<hr/>
Total Business-type Activities	\$129,485
	<hr/> <hr/>

Note – Long-term Debt

At September 30, 2017 the City's long-term debt consisted of the following:

Capital Leases

Governmental

Capital leases in amount of \$54,171 to fund purchase of police vehicles. The lease is payable in annual payments of \$14,610.86 including interest at 3.107%.

A summary of changes in long-term debt is as follows:

	<u>Balance</u> <u>10-1-2016</u>	<u>Issued/</u> <u>Adjustments</u>	<u>Retired</u>	<u>Balance</u> <u>9-30-2017</u>
Capital Leases	\$ 0	54,171	12,928	41,243
Tax Anticipation Note	0	0	0	0
Total Long-term Debt	<u>\$ 0</u>	<u>54,171</u>	<u>12,928</u>	<u>41,243</u>

The annual requirements on all debt outstanding as of September 30, 2017 are as follows:

Governmental Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$13,329	1,282	14,611
2019	13,744	867	14,611
2020	14,170	441	14,611
Total	\$41,243	2,590	43,883

Business-type Activities

The City issued Combination Tax and Revenue Certificates of Obligation July 29, 2017 in the amount of \$2,350,000 to fund the construction of a wastewater treatment plant. The Certificates are to be repaid over a twenty year period and have zero interest. The City bills each wastewater customer \$10 per month to service this debt and does not levy any debt service taxes.

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

The City issued revenue certificates of obligation in the amount of \$80,000 to fund waterline construction. The interest rate on the certificates of obligation is 1%.

The City issued revenue certificates of obligation in the amount of \$520,000 on June 11, 2017. The interest rates on this obligation ranges from 0% to 3.11%.

The City issued a capital lease purchase in the amount of \$283,557 in September of 2017 to fund the purchase of water meters. The capital lease is payable in monthly payments of \$5,030.65 including interest at 2.33% with payments beginning in October 2017.

A summary of changes in the business-type long-term debt is as follows:

	Balance 10-1-2016 -----	Issued -----	Retired -----	Balance 9-30-2017 -----
Capital Lease	174,755		56,901	117,854
Tax & Revenue Certificates	\$2,070,000		140,000	1,930,000
Total	<u>\$2,244,755</u>	<u>-----</u>	<u>196,901</u>	<u>2,047,854</u>

Future payment requirements are as follows:

	Principal payment only:	Interest	Total
2018	203,241	15,169	218,410
2019	204,613	13,600	218,213
2020	140,000	12,580	152,580
2021	140,000	12,243	152,243
2022	140,000	11,841	151,841
2023-2027	660,000	53,310	713,310
2028-2032	315,000	43,567	358,567
2033-2037	100,000	29,909	129,909
2038-2042	120,000	13,481	133,481
2043	25,000	389	25,389
Total	\$2,047,854	226,089	2,253,943

Note 10 – Assets and Obligations Under Lease

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

The City has equipment under capital leases. The leases are capitalized and are considered financing sources and are disclosed under the Long-term Debt section of the Notes.

Note 11 – Fund Balance Commitments

The total fund balance in the Special Revenue Funds and the Cemetery Trust Fund are committed for specific purposes internally but are not restricted externally.

Note 12 – Pension Plan

Plan Description

The City of De Leon participates in the nontraditional, joint conservatory, 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.tmr.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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.

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

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	15
Active employees	13
Total	35

Contributions

The contribution rate for the employees is 5%, and the City contribution rate is 1.66%, both as adopted by the governing body of the City. Under state law governing TMRS the City contribution rate is annually determined by the actuary. The rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25 year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is amortized over a new 25 year period. Currently, the unfunded actuarial liability is being amortized over a 25 year period which began October, 1994. The unit credit actuarial cost method is being used for determining the city contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

The City's total payroll in fiscal year 2016-2017 was \$514,781, and the City's contributions were based on a payroll of \$477,408. Both the City and the covered employees made required contributions amounting to \$7,479 or 1.66% of the covered payroll for the City and \$23,871 or 5% of the covered payroll for the employees. There were no-related party transactions.

Net Pension Liability

The City's net pension liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

The Total Pension Liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
-----------	---------------

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

Overall payroll growth 3.5% per year
Investment Rate of Return 6.75% net of pension plan investment expense

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 Health Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 100%. 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 Disabled Retire Mortality Table is used with slight adjustments.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as 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 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 fund asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and the best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocations	Long-term Expected Real Rate of Return
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.05%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

Total 100.00%

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 assume that employees and employer contributions will be made at the rates specified in the statute. Based on the 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.

Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2015	\$570,946	529,188	41,307
Changes for the year:			
Service cost	28,791		28,791
Interest	38,235		38,235
Change in benefit terms			
Difference between expected and actual experience	(7,860)		(7,860)
Changed of assumptions	0		0
Contributions-employer		5,891	(5,891)
Contributions-employee		23,716	(23,716)
Net investment income		31,732	31,732
Benefit payments, including refunds of employee contributions	(36,888)	(36,888)	
Administrative expense		(404)	404
Other changes		(22)	22
Net Changes	22,278	28,025	(5,747)
Balance at 12/31/2016	592,774	557,214	35,560

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 7%, as well as what the City's net pension liability would be if it were calculated

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

using the discount rate that is 1 percentage-point lower (6%) or 1 percentage point higher (8%) 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	106,922	35,560	(23,272)

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

Pension expense and Deferred Outflows of Resources and Deferred Inflows of Resources Relate to Pensions:

For the year ended September 30, 2017, the City recognized pension expense of \$15,145.

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

	Deferred Outflows of Resources 9/30/2017	Deferred Inflows of Resources 9/30/2017
Differences between Expected and Actual Economic Experience		\$ 5,818
Differences in Actual Assumptions	25,087	
Differences Between Projected and Actual Investment Earnings		10
Total	\$ 25,087	\$5,828

Other amounts reported as deferred outflows and inflows of resources to pensions will be recognized as pension expense as follows:

2017	\$7,129
2017	7,021

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

2017	5,113
2018	(4)
Total	\$19,259

Note 13 – Contingencies and Commitments

Federal and State Programs Contingencies

The City participates in various federal and state assisted grant programs which are subject to financial and compliance audits. Such audits could lead to a request for reimbursement of the grantor agency for expenditure disallowed under terms of the grant. Management believes such disallowance, if any, would be immaterial.

Note 14 – Negative Budget Variances

The City had the following negative budget variances in the General Fund by department:

Fire Department	\$632
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Note 15-Cemetery Trust Fund

The Cemetery Trust Fund is reported as a trust fund in the 2016-2017 financial statements and is not included in the government-wide financial statements.

Note 16- De Leon Industrial Development Corporation – A Component Unit

The De Leon Industrial Development Corporation owns real estate that is being rented to promote community Industrial development. The building is financed and subject to depreciation expense. Depreciation is as follows:

	Balance 10-01-16	Additions	Retirements	Balance 9-30-17
Building	\$50,095	-0-	-0-	\$50,095
Accumulated Depreciation	7,869	-0-		7,869
Net Depreciable Assets	42,226	-0-		\$42,226

City of De Leon, Texas
Notes to Financial Statements
September 30, 2017

The building purchase was financed with a note payable to the Farmers & Merchants Bank in the amount of \$40,000. The note is payable in monthly payments of \$308.30 including interest at 5 %.

Future requirements are as follows for the years ended September 30:

	Principal	Interest	Total
2018	2,993	706	3,699
2019	3,146	553	3,699
2020	3,307	392	3,699
2021	3,477	223	3,700
2022	2,562	51	2,613
Total	\$15,442	1,925	17,367

Note 19 – Other Items

The City entered into an agreement with the Texas Water Development Board in July of 2014 for construction of waterlines. Originally the City would borrow \$1,350,000 from the Texas Water Development Board for the project. A substantial portion \$828,950 of the loan was forgiven in 2014. The City issued certificates of obligation to fund the portion of the \$1,350,000 loan that was not forgiven in 2014.

Note 21 – Subsequent Events

Management has reviewed all transactions and events from September 30, 2017 through March 23, 2018. There no items identified that require disclosure.

City of De Leon, Texas
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2017

	Budget			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES:				
Ad valorem taxes	\$400,000	\$348,994	\$356,373	\$7,379
Penalty and interest	\$10,100	\$9,997	\$9,475	(\$522)
Other taxes	\$235,200	\$203,711	\$310,069	\$106,358
Fines and forfeitures	\$44,430	\$38,352	\$27,972	(\$10,380)
Solid waste collection	\$325,000	\$325,000	\$296,111	(\$28,889)
Rents	\$250	\$360	\$11,495	\$11,135
Interest	\$200	\$200	\$76	(\$124)
Other	\$77,870	\$83,695	\$98,038	\$14,343
Other grants	\$0	\$0	\$0	\$0
Police training grant	\$0	\$0	\$0	\$0
Total Revenues	<u>\$1,093,050</u>	<u>\$1,010,309</u>	<u>\$1,109,609</u>	<u>\$99,300</u>
EXPENDITURES:				
General government	\$241,290	\$397,415	\$254,061	\$143,354
Tax office	\$3,500	\$6,982	\$3,480	\$3,502
Animal shelter	\$18,340	\$22,525	\$15,144	\$7,381
Solid waste	\$257,000	\$537,984	\$280,984	\$257,000
City court	\$60,510	\$105,596	\$62,212	\$43,384
Canine unit	\$0	\$0	\$0	\$0
Police	\$321,345	\$560,083	\$350,591	\$209,492
Highways and streets	\$228,520	\$344,406	\$159,899	\$184,507
Dispatch service	\$56,500	\$56,500	\$55,849	\$651
Code enforcement	\$0	\$0	\$0	\$0
Library	\$38,995	\$47,370	\$37,745	\$9,625
Fire department	\$68,800	\$68,800	\$69,432	(\$632)
Fire marshal	\$0	\$0	\$0	\$0
Cemetery	\$25,855	\$27,610	\$23,472	\$4,138
Swimming pool	\$0	\$0	\$0	\$0
Park	\$6,750	\$6,750	\$5,544	\$1,206
Senior citizens	\$48,950	\$56,550	\$41,562	\$14,988
De Leon Information Center	\$1,200	\$1,200	\$0	\$1,200
City Hall	\$0	\$0	\$0	\$0
Debt service principal	\$0	\$0	\$0	\$0
Debt service interest	\$0	\$0	\$0	\$0
Capital lease principal	\$13,330	\$13,330	\$12,928	\$402
Capital lease interest	\$1,280	\$1,280	\$1,683	(\$403)
Total Expenditures	<u>\$1,392,165</u>	<u>\$2,254,381</u>	<u>\$1,374,586</u>	<u>\$879,795</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>(\$299,115)</u>	<u>(\$1,244,072)</u>	<u>(\$264,977)</u>	<u>\$979,095</u>
OTHER FINANCING RESOURCES (USES):				
Capital lease proceeds	\$0	\$0	\$54,171	\$54,171
Tax anticipation note proceeds	\$0	\$0	\$0	\$0
Transfers in	\$299,115	\$299,115	\$220,000	(\$79,115)
Transfers out	\$0	\$0	\$0	\$0
Net Other Resources (Uses)	<u>\$299,115</u>	<u>\$299,115</u>	<u>\$274,171</u>	<u>(\$24,944)</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER RESOURCES OVER EXPENDITURES AND OTHER USES	<u>\$0</u>	<u>(\$944,957)</u>	<u>\$9,194</u>	<u>\$954,151</u>
PRIOR PERIOD ADJUSTMENT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
FUND BALANCE BEGINNING OF YEAR	<u>\$51,073</u>	<u>\$51,073</u>	<u>\$28,375</u>	<u>(\$22,698)</u>
FUND BALANCE END OF YEAR	<u>\$51,073</u>	<u>(\$893,884)</u>	<u>\$37,569</u>	<u>\$931,453</u>

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

City of De Leon, Texas
Required Supplemental Information
Texas Municipal Retirement System - Schedule of Funding Progress
For the Year Ended September 30, 2016

	December 31		
	2014	2015	2016
Total Pension Liability			
Service Cost	\$24,341	\$27,648	\$28,791
Interest (on the Total Pension Liability)	\$36,366	\$37,552	\$38,235
Changes in benefit terms	\$0	\$0	\$0
Difference between expected and actual experience	\$851	(\$13,721)	(\$7,860)
Change of assumptions	\$0	\$14,750	\$0
Benefit payments, including refunds of employee contributions	(\$55,845)	(\$36,719)	(\$36,888)
Net Change in Total Pension Liability	\$5,713	\$29,510	\$22,278
Total Pension Liability - Beginning	\$535,273	\$540,986	\$570,496
Total Pension Liability - Ending	\$540,986	\$570,496	\$592,774
Plan Fiduciary Net Position			
Contributions - employer	\$3,601	\$5,802	\$5,891
Contributions - employee	\$22,100	\$23,591	\$23,716
Net investment income	\$30,653	\$791	\$35,732
Benefit payments, including refunds of employee contributions	(\$55,845)	(\$36,719)	(\$36,888)
Administrative expense	(\$320)	(\$482)	(\$404)
Other	(\$26)	(\$25)	(\$22)
Net Change in Plan Fiduciary Net Position	\$163	(\$7,042)	\$28,025
Plan Net Position - Beginning	\$536,068	\$536,231	\$529,189
Plan Net Position - Ending	\$536,231	\$529,189	\$557,214
Net Pension Liability - Ending	\$4,755	\$41,307	\$35,560
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	99.12%	92.76%	94.00%
Covered Employee Payroll	\$442,001	\$471,814	\$474,322
Net Pension Liability as a Percentage of Covered Payroll	1.08%	8.75%	7.50%

BURL D. LOWERY
CERTIFIED PUBLIC ACCOUNTANT
Member A.I.C.P.A. & T.S.C.P.A.

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311 Center

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Brownwood, Texas 76804
Independent Auditor's Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

To the Honorable Mayor
And City Council
City of De Leon
De Leon, Texas

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregately discretely presented component units, and the aggregate remaining fund information of the City of De Leon, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of De Leon's basic financial statements, and have issued my report thereon dated March 23, 2018.

Internal Control over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during my audit I did not identify deficiencies in internal control that I consider to be material weaknesses. I did identify deficiencies that I consider to be significant deficiencies. These significant deficiencies are identified in Finding 2017-001.

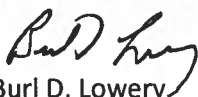
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of De Leon's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed findings 2017-001 which are matters that are required to be reported under Government Auditing Standards.

Purpose of This Report

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

Respectively submitted,



Burl D. Lowery
Certified Public Accountant

Brownwood, Texas
March 23, 2018

City of De Leon, Texas
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

significant deficiencies identified that are
not considered to be material weaknesses? X Yes No

Noncompliance material to financial statements noted? Yes X No

All findings are considered material weaknesses due to number of findings.

B. Financial Statement Findings

Finding 2017-001 - Bank Reconciliations and Financial Transactions

Condition: The City's various bank accounts were not reconciled to the City's financial records. Some transactions were not entered into the City's records and some journal entries were reversed when posted. The City staff traced the individual items as shown on the monthly bank statements into the City's computer records each month, but did not take the next step to reconcile the bank statements to the City's general ledger. The reversed journal entries were not caught because the amounts were correct, but the account numbers were reversed.

Criteria: All bank accounts of the City should be reconciled and balanced to the City's financial records (Computer General Ledger) each month to make certain all transactions are recorded.

Effect: The City has transactions that were not posted and journal entries that were reversed when posted. Therefore the balances as reported in the City's financial statements and financial were not correct.

Recommendation: I recommend that the City's bank statements be reconciled to the City's financial records each month. I also recommend that the City establish a check list listing each bank account whereby the person responsible for posting the transactions can initial and date that all transactions are posted. Also, this checklist should have a place for the employee responsible for reconciling the account to the general ledger can initial and date when the monthly bank reconciliation is completed. This checklist should be maintained as a part of the City's banking records and filed with the monthly bank statements.

City of De Leon
Corrective Action Plan
For the Year Ended September 30, 2017

Finding 2017-1: Bank Reconciliations.

The Mayor, City Manager, and City Secretary will monitor the monthly financial records of the City and make certain that all bank accounts are reconciled monthly to the financial records of the City. The management of the City of De Leon has been working to improve the financial records of the City and takes this very seriously. Many improvements have been made over the last few years and we will continue to strive improve the policies and records of the City.

Contact Persons:

Terry Scott Mayor
David Denman, City Manager
Melenda Harbour, City Secretary
City of De Leon
(254) 893-2065

City of De Leon, Texas
Status of Prior Audit Findings
For the Year Ended September 30, 2017

Finding 2016-1 - Negative Budget Variances

The City had negative budget variances in the year ended September 30, 2016. The City only had very minor budget variances in the 2016-2017 fiscal year. Administration addressed the prior year finding and amended the budget during the 2016-2017 fiscal year.

Finding 2016-2 – Transfers to Wastewater Debt Service, Industrial Development Corporation, and Street Improvement Fund were not timely transferred. The City transferred the utility collections and sales tax collections to these funds monthly in the current year as required. The balances from prior years' have not been transferred.