

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

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**CITY OF GATESVILLE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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FINANCIAL SECTION

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Lott, Vernon & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

Ronald E. Stepp, CPA
Jerry D. Tyroch Jr., CPA
Dane Legg, CPA
Deborah K. Hershberger, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Gatesville, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Gatesville, 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, schedule of changes in net pension liability and related ratios, schedule of contributions and schedule of funding progress for other postemployment benefits, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gatesville, Texas basic financial statements. The combining and individual non-major fund financial statements and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The other schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide an assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2017, on our consideration of the City of Gatesville, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gatesville, Texas's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Jett, Vernon & Co., P.C." The signature is written in a cursive, flowing style.

Killeen, Texas
December 21, 2017

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**MANAGEMENT'S
DISCUSSION & ANALYSIS**

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Management's Discussion and Analysis

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

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2017, by \$15,839,127 (net position). Of this amount \$15,136,435 is restricted for capital assets and \$1,648,136 is restricted for debt services.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,456,207.
- As of September 30, 2017, unassigned fund balance for the General Fund was \$813,097.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, and culture and recreation. The business-type activities of the City include water and sewer, fitness center and airport operations.

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

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

Because the focus on governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheets and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining fund statements and schedules elsewhere in this report.

Proprietary Funds. The City maintains one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the Enterprise Funds to account for water and sewer, fitness center, and airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and schedules that further support the information in the financial statements.

The combining fund statements and schedules for nonmajor funds are presented immediately following the required supplementary information on pensions and other postemployment benefits.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$15,839,127 as of September 30, 2017.

A large portion of the City's net position reflects its investments in capital assets (e.g., land, buildings, equipment, and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF GATESVILLE'S NET POSITION

	Government Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 1,466,837	\$ 1,092,743	\$ 3,422,492	\$ 2,427,707	\$ 4,889,329	\$ 3,520,450
Capital assets	6,586,383	6,819,388	26,222,559	27,190,928	32,808,942	34,010,316
Total assets	<u>8,053,220</u>	<u>7,912,131</u>	<u>29,645,051</u>	<u>29,618,635</u>	<u>37,698,271</u>	<u>37,530,766</u>
Deferred Outflows of resources	<u>237,854</u>	<u>650,142</u>	<u>502,102</u>	<u>333,431</u>	<u>739,956</u>	<u>729,401</u>
Current liabilities	526,382	417,801	503,755	497,089	1,030,137	914,890
Noncurrent liabilities	4,308,485	4,282,678	17,260,478	16,667,202	21,568,963	20,949,880
Total liabilities	<u>4,834,867</u>	<u>4,700,479</u>	<u>17,764,233</u>	<u>17,164,291</u>	<u>22,599,100</u>	<u>21,864,770</u>
Net position:						
Invested in capital assets net of related debt	4,866,973	5,168,905	10,269,462	12,178,804	15,136,435	17,347,709
Restricted	261,933	229,907	1,480,962	1,536,868	1,742,895	1,766,775
Unrestricted	<u>(1,672,699)</u>	<u>(1,537,018)</u>	<u>632,496</u>	<u>(927,897)</u>	<u>(1,040,203)</u>	<u>(2,464,915)</u>
Total net position	<u>\$ 3,456,207</u>	<u>\$ 3,861,794</u>	<u>\$ 12,382,920</u>	<u>\$ 12,787,775</u>	<u>\$ 15,839,127</u>	<u>\$ 16,649,569</u>

As of September 30, 2017, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

CITY OF GATESVILLE'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
REVENUES:						
Program revenues:						
Charges for services	\$ 388,956	\$ 370,617	\$ 9,031,969	\$ 9,227,287	\$ 9,420,925	\$ 9,597,904
Operating grants	83,303	239,955	-	-	83,303	239,955
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	1,870,604	1,701,398	-	-	1,870,604	1,701,398
Sales taxes	1,897,023	1,978,274	-	-	1,897,023	1,978,274
Franchise taxes	338,625	396,128	-	-	338,625	396,128
Hotel/motel taxes	126,906	113,796	-	-	126,906	113,796
Other taxes	12,534	11,629	-	-	12,534	11,629
Investment earnings	3,997	1,958	22,317	4,870	26,314	6,828
Unrestricted contributions	31,255	29,280	-	-	31,255	29,280
Miscellaneous	95,459	79,639	-	-	95,459	79,639
Total revenues	<u>4,848,662</u>	<u>4,922,674</u>	<u>9,054,286</u>	<u>9,232,157</u>	<u>13,902,948</u>	<u>14,154,831</u>
EXPENSES:						
General government	1,081,977	1,234,194	-	-	1,081,977	1,234,194
Public safety	2,256,685	2,369,987	-	-	2,256,685	2,369,987
Public works	1,524,824	888,863	-	-	1,524,824	888,863
Culture and recreation	911,760	818,578	-	-	911,760	818,578
Water and Sewer	-	-	8,881,020	9,037,368	8,881,020	9,037,368
Airport	-	-	57,124	47,172	57,124	47,172
Total expenses	<u>5,775,246</u>	<u>5,311,622</u>	<u>8,938,144</u>	<u>9,084,540</u>	<u>14,713,390</u>	<u>14,396,162</u>
INCREASES (DECREASES) IN BEFORE TRANSFERS	(926,584)	(388,948)	116,142	147,617	(810,442)	(241,331)
TRANSFERS	<u>520,997</u>	<u>309,930</u>	<u>(520,997)</u>	<u>(309,930)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	(405,587)	(79,018)	(404,855)	(162,313)	(810,442)	(241,331)
Net position, (beginning of year)	<u>3,861,794</u>	<u>3,940,812</u>	<u>12,787,775</u>	<u>12,950,088</u>	<u>16,649,569</u>	<u>16,890,900</u>
Net position (end of year)	<u>\$ 3,456,207</u>	<u>\$ 3,861,794</u>	<u>\$ 12,382,920</u>	<u>\$ 12,787,775</u>	<u>\$ 15,839,127</u>	<u>\$ 16,649,569</u>

Governmental Activities.

Revenues from governmental activities when compared to the prior year had a decrease of \$74,012. Expenses in governmental activities increased \$463,624 from the prior year with the largest increase of \$635,961 in public works.

Business-type Activities.

Revenues from business-type activities decreased \$177,871 from the prior year. Expenses decreased \$146,396 from the prior year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$907,856. Approximately 90 percent of this total amount (\$813,097) constitutes unassigned fund balance.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the original budgeted expenditures and final amended budgeted expenditures amount was \$39,250. The most significant change was an increase of \$249,401 in Capital Outlay.

Capital Assets.

Governmental capital assets decreased \$233,005 from 2016 due to increased depreciation. Business-type capital assets decreased \$968,369 due to increased depreciation. The table below presents the City's capital assets as of September 30, 2017, as well as the previous fiscal year-end.

CITY OF GATESVILLE'S CAPITAL ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 636,543	\$ 636,543	\$ 300,339	\$ 300,339	\$ 936,882	\$ 936,882
Buildings and improvements	3,268,188	3,268,188	52,815,550	52,729,884	56,083,738	55,998,072
Improvements other than buildings	3,438,035	3,405,933	-	-	3,438,035	3,405,933
Machinery and equipment	4,044,993	3,715,214	5,750,640	5,558,450	9,795,633	9,273,664
Construction in progress	395,314	-	724,570	68,449	1,119,884	68,449
Less accumulated depreciation	(5,196,690)	(4,206,490)	(33,368,540)	(31,466,194)	(38,565,230)	(35,672,684)
Total capital assets, net	<u>\$ 6,586,383</u>	<u>\$ 6,819,388</u>	<u>\$ 26,222,559</u>	<u>\$ 27,190,928</u>	<u>\$ 32,808,942</u>	<u>\$ 34,010,316</u>

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total debt of \$21,568,963. Of this amount, \$12,567,508 represents debt backed by the full faith and credit of the City. \$130,000 represents utility revenue bonds and \$4,975,000 utility refunding bonds secured by water and sewer revenues. Additional information on the city's long-term debt is found within the notes section of this report.

OUTSTANDING DEBT

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligations	\$ 1,085,000	\$ 1,225,000	\$ 9,788,149	\$ 10,358,149	\$ 10,873,149	\$ 11,583,149
Note payable	476,041	425,488	949,000	180,000	1,425,041	605,488
Lease payable	158,370	-	110,948	-	269,318	-
Revenue bonds payable	-	-	130,000	4,805,000	130,000	4,805,000
Refunding bonds payable	-	-	4,975,000	-	4,975,000	-
Compensated absences	118,537	128,357	64,540	66,545	183,077	194,902
Net pension liability	2,398,148	2,437,414	1,177,600	1,197,657	3,575,748	3,635,071
Net OPEB obligation	72,389	66,408	65,241	59,851	137,630	126,259
Total debt	<u>\$ 4,308,485</u>	<u>\$ 4,282,667</u>	<u>\$ 17,260,478</u>	<u>\$ 16,667,202</u>	<u>\$ 21,568,963</u>	<u>\$ 20,949,869</u>

ECONOMIC FACTORS

Increasing urbanization along the IH-35 corridor – in one of the fastest growing regions in the country, coupled with the strategic importance of nearby North Fort Hood, will continue to shape opportunities for Gatesville's economy in the near- to mid-term. The recent designation of U.S. Highway 190 in east Coryell/west Bell County as Interstate 14 will also have a potential impact on development in the south approaches to the City.

Gatesville's General Fund revenue pattern is atypical to that seen in most Texas cities. In FY 2017, 40.4 percent of the City's General Fund revenues were generated by sales tax allocations and 36 percent came from Ad Valorem taxes (a 2.3 percent increase as a result of a \$0.01 tax rate increase). Gatesville's lower-than-average property valuation and low tax rate (second lowest in the region) are factors. Annual sales tax allocations were essentially flat in FY 2016 compared to the previous year, but rebounded in FY 2017 posting a 4.8 percent. The City is cautious about adopting an over-reliance on projected sales tax allocations during the budgeting process which could induce increased risk that revenue projections will not be met. Therefore, Gatesville's annual budget is "sensitive" to robust retail activity.

The City has initiated the process to update the 1970 Comprehensive Plan, to include development of a future land use map and revisions to the City's Zoning Ordinance. In a survey of resident's needs, abating substandard structures in the downtown and some residential areas was a predominant theme. We are developing a plan to address this issue with a long-term goal to increase per-capita median

housing values. The Environmental Finance Center at the University of North Carolina assisted the City with a comprehensive water and sewer rate analysis in FY 2017. Using a functional (wholesale water, residential/business water sales, and sewer) versus department-level focus to examine revenues and expenses indicates an increase in wholesale water and sewer rates is required; this should result in increased revenues in the next fiscal year.

Residential and commercial construction increased 48 percent over 2016 including 33 residential and 7 new commercial construction projects. The \$28 million facilities expansion/upgrade at Coryell Memorial Healthcare System continued in FY 2017. The City continues to explore alternatives to increase broadband internet capacity which acts as a major drag on business and economic development in the City.

North Fort Hood continued to see significant levels of mobilization of US Army Reserve and Army National Guard units during 2017. Troop strengths exceeded maximum beds available four times during FY 2017, indicating the strategic importance of North Fort Hood to the Army's mission. While the Mobilization Force Generation mission at North Fort Hood does not create a sustained economic impact to Gatesville, retail sales are positively affected and contribute to our sales tax allocations, in addition to increased water sales and wastewater treatment charges at North Fort Hood.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Brenda Kiphen, Director of Finance, 110 North 8th Street, Gatesville, Texas 76528.

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**BASIC
FINANCIAL STATEMENTS**

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CITY OF GATESVILLE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 1,012,470	\$ 2,654,438	\$ 3,666,908
Receivables (net of allowance for uncollectibles)			
Taxes	33,216	-	33,216
Accounts	244,392	944,813	1,189,205
Internal balances	176,759	(176,759)	-
Capital assets:			
Land and improvements	636,543	300,339	936,882
Building and improvements	3,268,188	52,815,550	56,083,738
Improvements other than buildings	3,438,035	-	3,438,035
Machinery and equipment	4,044,993	5,750,640	9,795,633
Construction in progress	395,314	724,570	1,119,884
Less: accumulated depreciation	(5,196,690)	(33,368,540)	(38,565,230)
Total capital assets	<u>6,586,383</u>	<u>26,222,559</u>	<u>32,808,942</u>
 Total Assets	 <u>\$ 8,053,220</u>	 <u>\$ 29,645,051</u>	 <u>\$ 37,698,271</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding of debt	\$ -	\$ 380,116	\$ 380,116
Deferred outflows related to pensions	237,854	121,986	359,840
Total Deferred Outflows of Resources	<u>\$ 237,854</u>	<u>\$ 502,102</u>	<u>\$ 739,956</u>
LIABILITIES			
Accounts payable	\$ 371,097	\$ 69,972	\$ 441,069
Accrued liabilities	-	26,115	26,115
Customer deposits	-	263,156	263,156
Accrued interest	-	144,512	144,512
Deferred revenue	155,285	-	155,285
Noncurrent liabilities:			
Due within one year	306,024	897,024	1,203,048
Due in more than one year	1,604,313	15,185,854	16,790,167
Net pension liability (City's share)	2,398,148	1,177,600	3,575,748
 Total Liabilities	 <u>\$ 4,834,867</u>	 <u>\$ 17,764,233</u>	 <u>\$ 22,599,100</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	\$ 4,866,973	\$ 10,269,462	\$ 15,136,435
Restricted for:			
Debt Service	167,174	1,480,962	1,648,136
Other	94,759	-	94,759
Unrestricted	(1,672,699)	632,496	(1,040,203)
 Total Net Position	 <u>\$ 3,456,207</u>	 <u>\$ 12,382,920</u>	 <u>\$ 15,839,127</u>

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

CITY OF GATESVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

<u>FUNCTION/PROGRAM ACTIVITY</u>	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:				
Governmental Activities:				
General government	\$ 1,081,977	\$ 40,682	\$ 83,303	\$ -
Public safety	2,256,685	170,967	-	-
Public works	1,524,824	-	-	-
Culture and recreation	911,760	177,307	-	-
Interest on long-term debt	-	-	-	-
Total governmental activities	5,775,246	388,956	83,303	-
Business-type Activities:				
Water and Sewer	8,881,020	8,978,229	-	-
Airport	57,124	53,740	-	-
Total business-type activities	8,938,144	9,031,969	-	-
Total primary government	\$ 14,713,390	\$ 9,420,925	\$ 83,303	\$ -
General revenues:				
Taxes:				
Property taxes				
Franchise fees				
Sales				
Occupancy				
Mixed Beverage				
Unrestricted investment income				
Unrestricted contributions and donations				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position – beginning				
Net position - ending				

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

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (957,992)	\$ -	\$ (957,992)
(2,085,718)	-	(2,085,718)
(1,524,824)	-	(1,524,824)
(734,453)	-	(734,453)
-	-	-
<u>(5,302,987)</u>	<u>-</u>	<u>(5,302,987)</u>
-	97,209	97,209
-	(3,384)	(3,384)
-	93,825	93,825
<u>\$ (5,302,987)</u>	<u>\$ 93,825</u>	<u>\$ (5,209,162)</u>
\$ 1,870,604	\$ -	\$ 1,870,604
338,625	-	338,625
1,897,023	-	1,897,023
126,906	-	126,906
12,534	-	12,534
3,997	22,317	26,314
31,255	-	31,255
95,459	-	95,459
520,997	(520,997)	-
<u>4,897,400</u>	<u>(498,680)</u>	<u>4,398,720</u>
(405,587)	(404,855)	(810,442)
<u>3,861,794</u>	<u>12,787,775</u>	<u>16,649,569</u>
<u>\$ 3,456,207</u>	<u>\$ 12,382,920</u>	<u>\$ 15,839,127</u>

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CITY OF GATESVILLE

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 917,711	\$ 94,759	\$ 1,012,470
Receivables (net of allowance for uncollectibles):			
Taxes	33,216	-	33,216
Accounts	244,392	-	244,392
Due from other funds	176,759	-	176,759
Total Assets	<u>\$ 1,372,078</u>	<u>\$ 94,759</u>	<u>\$ 1,466,837</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 371,097	\$ -	\$ 371,097
Deferred revenue	155,285	-	155,285
Total Liabilities	<u>526,382</u>	<u>-</u>	<u>526,382</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	32,599	-	32,599
Total deferred inflows of resources	<u>32,599</u>	<u>-</u>	<u>32,599</u>
FUND BALANCES			
Restricted			
Other	-	94,759	94,759
Unassigned	813,097	-	813,097
Total Fund Balances	<u>813,097</u>	<u>94,759</u>	<u>907,856</u>
Total Liabilities and Fund Balances	<u>\$ 1,372,078</u>	<u>\$ 94,759</u>	<u>\$ 1,466,837</u>

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

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CITY OF GATESVILLE
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
 SEPTEMBER 30, 2017

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

Total fund balance - governmental funds	\$ 907,856
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,586,383
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	32,599
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(4,070,820)
Fireman's Fund - Agency funds are included in government-wide financial statements but are not included in government fund financials, which increases net position	189
Net position of governmental activities	<u>\$ 3,456,207</u>

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

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CITY OF GATESVILLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes and special assessments:			
Property	\$ 1,838,005	\$ -	\$ 1,838,005
Other taxes and special assessments	2,248,182	126,906	2,375,088
Licenses and permits	40,682	-	40,682
Fines and forfeitures	170,967	-	170,967
Charges for services	177,307	-	177,307
Intergovernmental	83,303	-	83,303
Investment earnings	2,999	998	3,997
Contributions and donations	18,280	12,975	31,255
Miscellaneous	45,920	-	45,920
	<u>4,625,645</u>	<u>140,879</u>	<u>4,766,524</u>
 EXPENDITURES			
Current:			
General government	601,763	-	601,763
Public safety	2,111,019	-	2,111,019
Public works	736,670	-	736,670
Culture and recreation	761,582	31,828	793,410
Debt service:			
Principal	275,347	-	275,347
Interest and fiscal charges	1,304	-	1,304
Capital outlay	677,494	-	677,494
	<u>5,165,179</u>	<u>31,828</u>	<u>5,197,007</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(539,534)</u>	<u>109,051</u>	<u>(430,483)</u>
 OTHER FINANCING SOURCES (USES)			
Loan proceeds	132,995	-	132,995
Gain on sale of property	49,539	-	49,539
Transfers in	906,557	-	906,557
Transfers out	(308,005)	(78,905)	(386,910)
	<u>781,086</u>	<u>(78,905)</u>	<u>702,181</u>
Net Change in Fund Balances	241,552	30,146	271,698
Fund Balances – Beginning	<u>571,545</u>	<u>64,613</u>	<u>636,158</u>
Fund Balances - Ending	<u>\$ 813,097</u>	<u>\$ 94,759</u>	<u>\$ 907,856</u>

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

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CITY OF GATESVILLE
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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

Net change in fund balances - total governmental funds	\$ 271,698
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.	(233,005)
Net pension obligation is accrued on the government-wide statement of net position, but does not require the use of current financial resources. The current period change in net pension obligation is reported in the government-wide statement of activities and changes in net position. This is the net decrease in pension costs not reported as an expenditure in governmental funds.	(411,795)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	32,599
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(68,923)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	3,839
Change in net position of governmental activities	<u>\$ (405,587)</u>

CITY OF GATESVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes and special assessments:				
Property	\$ 1,751,450	\$ 1,838,363	\$ 1,838,005	\$ (358)
Other taxes and special assessments	2,461,500	2,412,534	2,248,182	(164,352)
Licenses and permits	15,000	40,500	40,682	182
Fines and forfeitures	153,000	158,500	170,967	12,467
Charges for services	143,700	175,998	177,307	1,309
Intergovernmental	-	2,907	83,303	80,396
Investment earnings	1,000	2,702	2,999	297
Contributions and donations	500	500	18,280	17,780
Miscellaneous	60,000	45,900	45,920	20
Total Revenue	4,586,150	4,677,904	4,625,645	(52,259)
EXPENDITURES				
Current:				
General government:				
Administration	578,939	615,621	601,763	13,858
Public safety:				
Police	1,817,830	1,806,498	1,803,296	3,202
Courts	136,598	138,525	141,126	(2,601)
Fire	208,975	184,165	166,597	17,568
Public works:				
Streets	837,587	706,402	663,711	42,691
Utility Building	98,086	73,264	72,959	305
Culture and recreation:				
Parks, recreation & cemetery	156,901	101,541	106,537	(4,996)
Swimming pool	90,860	91,009	88,499	2,510
Library	261,426	264,108	261,973	2,135
Recreation	242,922	236,547	221,256	15,291
Civic center	88,401	90,679	83,317	7,362
Debt Service:				
Principal	259,050	260,865	275,347	(14,482)
Interest and fiscal charges	2,500	700	1,304	(604)
Capital outlay	-	249,401	677,494	(428,093)
Total Expenditures	4,780,075	4,819,325	5,165,179	(345,854)
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	\$ (193,925)	\$ (141,421)	\$ (539,534)	\$ (398,113)

(Continued)

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

CITY OF GATESVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	132,995	132,995	-
Gain on sale of property	15,000	49,500	49,539	39
Transfers in	278,925	242,674	906,557	663,883
Transfers out	(100,000)	(283,748)	(308,005)	(24,257)
 Total Other Financing Sources (Uses)	 <u>193,925</u>	 <u>141,421</u>	 <u>781,086</u>	 <u>639,665</u>
 Net Change in Fund Balances	 -	 -	 241,552	 241,552
 Fund Balances – Beginning	 <u>571,545</u>	 <u>571,545</u>	 <u>571,545</u>	 <u>-</u>
 Fund Balances – Ending	 <u><u>\$ 571,545</u></u>	 <u><u>\$ 571,545</u></u>	 <u><u>\$ 813,097</u></u>	 <u><u>\$ 241,552</u></u>

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

CITY OF GATESVILLE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and investments	\$ 2,573,671	\$ 80,767	\$ 2,654,438
Receivables (net of allowance for uncollectibles):			
Accounts	944,813	-	944,813
Total Current Assets	3,518,484	80,767	3,599,251
Capital Assets:			
Land and improvements	284,339	16,000	300,339
Construction in progress	724,570	-	724,570
Buildings and improvements	52,415,055	400,495	52,815,550
Machinery and equipment	5,750,640	-	5,750,640
Less accumulated depreciation	(33,269,847)	(98,693)	(33,368,540)
Total Capital Assets (Net of Depreciation)	25,904,757	317,802	26,222,559
Total Noncurrent Assets	25,904,757	317,802	26,222,559
Total Assets	\$ 29,423,241	\$ 398,569	\$ 29,821,810
Deferred Outflows of Resources:			
Deferred amount on refunding of debt	\$ 380,116	\$ -	\$ 380,116
Deferred outflows related to pensions	121,986	-	121,986
Total Deferred Outflows of Resources	\$ 502,102	\$ -	\$ 502,102

(Continued)

CITY OF GATESVILLE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS (CONTINUED)
SEPTEMBER 30, 2017

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 96,087	\$ -	\$ 96,087
Due to other funds	176,759	-	176,759
Accrued compensated absences	64,540	-	64,540
Refundable meter deposits	263,156	-	263,156
Accrued interest payable	144,512	-	144,512
Note payable - current	12,342	-	12,342
Lease payable - current	25,142	-	25,142
Revenue bonds - current	130,000	-	130,000
Refunding bonds - current	65,000	-	65,000
Certificates of obligation - current	600,000	-	600,000
	1,577,538	-	1,577,538
Total Current Liabilities			
Noncurrent Liabilities:			
Net other postemployment benefit obligation	65,241	-	65,241
Net pension liability	1,177,600	-	1,177,600
Note payable (net of current portion)	936,658	-	936,658
Lease payable	85,806	-	85,806
Refunding bonds payable	4,910,000	-	4,910,000
Certificates of obligation	9,188,149	-	9,188,149
	16,363,454	-	16,363,454
Total Noncurrent Liabilities			
	\$ 17,940,992	\$ -	\$ 17,940,992
Total Liabilities			
NET POSITION			
Net investment in capital assets	\$ 9,951,660	\$ 317,802	\$ 10,269,462
Restricted for debt service	1,480,962	-	1,480,962
Unrestricted	551,729	80,767	632,496
	\$ 11,984,351	\$ 398,569	\$ 12,382,920
Total Net Position			

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

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CITY OF GATESVILLE

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

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
OPERATING REVENUES			
Charges for services	\$ 8,978,229	\$ 29,426	\$ 9,007,655
Other	-	24,314	24,314
Total Operating Revenues	8,978,229	53,740	9,031,969
OPERATING EXPENSES			
Personnel services	2,274,907	-	2,274,907
Collection	343,530	-	343,530
Utilities	856,701	5,545	862,246
Repairs and maintenance	269,438	12,768	282,206
Materials and supplies	498,536	3,724	502,260
Cost of sales and services	1,758,712	12,606	1,771,318
Depreciation	1,965,921	22,481	1,988,402
Total Operating Expenses	7,967,745	57,124	8,024,869
Operating Income	1,010,484	(3,384)	1,007,100
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	22,317	-	22,317
Interest expense	(741,494)	-	(741,494)
Bond issuance cost	(145,268)	-	(145,268)
Miscellaneous expense	(26,513)	-	(26,513)
Total Nonoperating Revenues (Expenses)	(890,958)	-	(890,958)
Income Before Transfers	119,526	(3,384)	116,142
Transfers In	357,609	20,964	378,573
Transfers Out	(899,570)	-	(899,570)
Change in Net Position	(422,435)	17,580	(404,855)
Net Position – Beginning	12,406,786	380,989	12,787,775
Net Position – Ending	\$ 11,984,351	\$ 398,569	\$ 12,382,920

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

CITY OF GATESVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 8,909,395	\$ 53,740	\$ 8,963,135
Cash payments to suppliers	(3,946,249)	(34,643)	(3,980,892)
Cash payments to employees	(2,162,260)	-	(2,162,260)
Net Cash Provided By Operating Activities	<u>2,800,886</u>	<u>19,097</u>	<u>2,819,983</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	357,609	20,964	378,573
Transfers Out	(899,570)	-	(899,570)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(541,961)</u>	<u>20,964</u>	<u>(520,997)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(1,027,969)	(9,258)	(1,037,227)
Proceeds from issuance of debt	5,895,130	-	5,895,130
Principal Repayments	(5,439,760)	-	(5,439,760)
Interest paid on long-term debt	(741,494)	-	(741,494)
Net Cash Provided (Used) By Capital And Related Financing Activities	<u>(1,314,093)</u>	<u>(9,258)</u>	<u>(1,323,351)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Received	22,317	-	22,317
Net Cash Provided (Used) By Investing Activities	<u>22,317</u>	<u>-</u>	<u>22,317</u>
Net Increase (Decrease) in Cash For The Year	967,149	30,803	997,952
Cash - Beginning	<u>1,606,522</u>	<u>49,964</u>	<u>1,656,486</u>
Cash - Ending	<u>\$ 2,573,671</u>	<u>\$ 80,767</u>	<u>\$ 2,654,438</u>

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

CITY OF GATESVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-type Activities		
	Water and Sewer Fund	Airport Fund	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income	\$ 1,010,484	\$ (3,384)	\$ 1,007,100
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	1,965,921	22,481	1,988,402
Change in Assets and Liabilities:			
(Increase) Decrease in accounts receivable(net)	(68,843)	-	(68,843)
(Increase) Decrease in deferred amount on refunding of debt	(380,116)	-	(380,116)
(Increase) Decrease in deferred outflows in net pension obligation	211,445	-	211,445
Increase(Decrease) in accounts payable and accrued liabilities	12,373	-	12,373
Increase(Decrease) in interest payable	(11,417)	-	(11,417)
Increase (Decrease) in refundable meter deposits	5,710	-	5,710
Increase (Decrease) in due to other funds	72,001	-	72,001
Increase (Decrease) in compensated absences	(2,005)	-	(2,005)
Increase (Decrease) in net pension obligation	(20,057)	-	(20,057)
Increase(Decrease) in net other postemployment benefit obligation	5,390	-	5,390
Total Adjustments	<u>1,790,402</u>	<u>22,481</u>	<u>1,812,883</u>
Net cash Provided By Operating Activities:	<u>\$ 2,800,886</u>	<u>\$ 19,097</u>	<u>\$ 2,819,983</u>

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

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CITY OF GATESVILLE
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
SEPTEMBER 30, 2017

	<u>Fireman's Fund</u>
ASSETS	
Cash	<u>\$ 189</u>
Total Assets	<u><u>\$ 189</u></u>
 LIABILITIES	
Due to beneficiaries	<u>\$ -</u>
Total Liabilities	<u>-</u>
 FUND BALANCES	
Restricted for:	
Other	<u>189</u>
Total Fund Balances	<u>189</u>
Total Liabilities and Fund Balances	<u><u>\$ 189</u></u>

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

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CITY OF GATESVILLE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
AGENCY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Fireman's Fund
REVENUES	
Investment earnings	\$ -
Total Revenues	-
EXPENDITURES	
Retirement payments	1,500
Miscellaneous	-
Total Expenditures	1,500
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,500)
OTHER FINANCING SOURCES (USES)	
Transfers in	1,350
Total Other Financing Sources (Uses)	1,350
Net Change in Fund Balances	(150)
Fund Balances – Beginning	339
Fund Balances – Ending	\$ 189

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

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CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Gatesville, Texas, a municipal corporation in Coryell County, Texas, was incorporated under the general laws of the State of Texas. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities and airport operations.

The financial statements of the City of Gatesville have been prepared to conform with generally accepted accounting principles in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting and reporting policies are described below.

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The City Council, which is elected at large, consists of a mayor and six council members constituting an ongoing entity and is the level of government that has governance responsibilities over all activities related to the City of Gatesville. The criteria for including organizations as component units within the City's reporting entity include whether 1) the organization is legally separate (can sue and be sued in their own name, 2) the City holds the corporate powers of the organization, 3) the City appoints a voting majority of the organization's board, 4) the City is able to impose its will on the organization, 5) the organization has the potential to impose a financial benefit/burden on the City, and 6) there is fiscal dependency by the organization on the City. There are no component units that qualify for inclusion in the City's reporting entity.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. In the reporting model as defined by GASB Statement No. 34, the focus is either the City as a whole or major individual funds (within the fund financial statements).

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

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

The City's statement of net position includes both non-current assets and non-current liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets.

Separate fund based financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the funds financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. Information on non-major governmental funds is combined in a column labeled "Other Governmental Funds." The nonmajor funds are detailed in the combining section of the statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

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

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

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

Property taxes, franchise taxes, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes collected by Coryell County Appraisal District at year-end on behalf of the City and sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. All other revenue items are considered to be measurable and available only when the City receives the cash.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Governmental Funds:

The focus of Governmental Fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The city reports the following major governmental fund:

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

In addition, the city reports the following non-major governmental funds:

Special Revenue Funds – to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Fiduciary funds – Agency Funds are used to account for assets held by the City as an agent on behalf of others. Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. The City has one Agency Fund: Fireman's Fund.

Proprietary Funds:

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows, which is similar to businesses. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability. The City reports the following major enterprise funds:

Utility Fund – accounts for the distribution of treated water and the collection and treatment of sewage, and solid waste collection activities. Activities of the fund include administration, operation and maintenance of the water and sewer system, and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

Airport Fund – accounts for hanger rentals and nominal expenses associated with operating the facilities.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, money market fund deposits, balances in public investment pools, and short-term investments with original maturities of three months or less from the date of acquisition.

The City is authorized to make investments in accordance with "The Public Funds Investment Act of 1987". The City is also authorized by the Interlocal Cooperation Act, Articles 4413(32c) and 4413(43c), Vernon's Texas Civil Statutes, as amended, to invest in shares of a public funds investment pool. The City's investment policy authorizes certain investments that may be purchased by the City. A detail listing of authorized investments is included in Part IV, Note I titled "Deposits and Investments."

Under GASB Statement No. 31, investments are reported at fair value (based on quoted market prices). Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Short-term nonparticipating interest-earning investment contracts (to include certificates of deposit) are reported using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. The term "short-term" refers to investments that have a remaining term of one year or less from date of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

The gain/loss resulting from valuation is reported within the revenue account "investment earnings" on the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds, and the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Funds.

The City has implemented GASB Statement No. 40 entitled "Deposit and Investment Risk Disclosures". This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk as well as modifying custodial credit risk disclosures.

E. Receivables and Payables and Interfund Transactions

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All legally authorized transfers are appropriately treated as transfers and are included in the results of operations of both governmental and proprietary funds. Nonrecurring or non-routine transfers of equity between funds – for example, contribution of capital assets to a proprietary fund or transfers of residual balances of discontinued funds to other funds – are accounted for as transfers in the government-wide statements of activities and as capital contributions in the proprietary fund operating statement.

All service and property tax receivables are shown net of an allowance for uncollectibles. Service accounts receivable in excess of 60 days comprise the service accounts receivable allowance for uncollectible. The property tax receivable allowance is based on historical collection rates at the end of the fiscal year.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Ad Valorem Taxes

The City levies property taxes as authorized under state law. The City reports tax revenue on the modified accrual basis, as described previously, net of allowance for uncollectible taxes. In addition, the City has entered into a contractual relationship with Coryell County, Texas, for the collections of all assess property taxes. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year.

G. Restricted Assets

Certain investments and cash accounts are classified as restricted on the balance sheet because their use is limited to servicing debt, repaying refundable deposits, public safety, culture and recreation, and specific construction projects.

H. Capital Assets

Capital assets (i.e. land, buildings, equipment, improvements other than buildings, which includes the City's infrastructure, and construction in progress) of all funds are stated at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

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

Buildings	10-50 years
Improvements other than buildings	10-50 years
Machinery and equipment	5-15 years
Infrastructure	40 years

I. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave, which is not vested. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs incurred are fully expensed in that reporting period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Fund Equity

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

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles as applied to governmental units requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Fund Balance Classifications

The difference between assets and liabilities in the governmental fund balance sheet shall be organized into the following classifications:

Nonspendable – Not in a spendable form, such as inventory, or required to be maintained intact such as the principal of a permanent fund. As of September 30, 2017, the City did not have any nonspendable fund balances.

Restricted – Resources that are subject to constraints that are either imposed by law through constitutional provisions or enabling legislation, or externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. As of September 30, 2017, the City had restricted funds for economic development, public safety, debt service, capital projects, and culture and recreation.

Committed – Amounts that can only be used for specific purposes determined by formal approval of the Council. These amounts shall not be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action it used to commit the amounts. As of September 30, 2017, the City did not have any committed fund balances.

Assigned – Amounts that the City intends to use for a specific purpose and are neither restricted nor committed. The intent to assign amounts for a specific purpose shall be expressed by the Council. As of September 30, 2017, the City did not have any assigned fund balances.

Unassigned – The residual classification for the general fund balance, including amounts that are not contained in the other classifications. Unassigned amounts are the portion of fund balance that is not obligated or specifically designated and is available for any purpose.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Use of Restricted, Committed, Assigned, and Unassigned Assets

When the City incurs an expense for which it may use either restricted, committed, assigned, or unassigned assets, the City shall reduce restricted, committed, and assigned assets first, in that order, unless unassigned assets would have to be returned because they were not used.

O. Pensions

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

P. Deferred Outflows of Resources

The City reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. Deferred outflows of resources reported in this year's financial statements includes a deferred outflow of resources for contributions made to the City's defined benefit pension plans between the measurement date of the net pension liabilities from those plans and the end of the city's fiscal year, and (2) deferred outflows of resources related to the differences between the expected and actual demographics for the City's single-employer defined benefit fund. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred amount related to the actuarial assumptions for demographic factors in the pension fund will be recognized over a closed period equal to the average of the expected remaining service lives of all employees participating in the plan.

Q. Deferred Inflows of Resources

The City's statements of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources are reported in the City's various statements of net position includes (1) a deferred inflow for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense and (2) a deferred inflow of unavailable revenue from uncollected property taxes. The deferred inflow for actual pension plan investment earnings is attributed to pension expense over a total of 5 years, including the current year. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$4,070,820 difference are as follows:

Note payable	\$ (476,041)
Bonds payable	(1,085,000)
Lease payable	(158,370)
Compensated absences	(118,537)
Net pension liability	(2,398,148)
Deferred outflows related to pension	237,665
Net postemployment benefit obligation	<u>(72,389)</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ (4,070,820)</u>

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of the \$6,586,383 are as follows:

Land	\$ 636,543
Construction in progress	395,314
Buildings and improvements	6,706,223
Less: Accumulated depreciation	(2,471,007)
Machinery and equipment	4,044,993
Less: Accumulated depreciation	<u>(2,725,683)</u>
Net adjustment to increase fund balance - total government funds to arrive at net position - governmental activities	<u>\$ 6,586,383</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.” The details of this \$233,005 difference are as follows:

Capital outlay	\$ 757,195
Depreciation expense	<u>(990,200)</u>
Net adjustment to decrease net changes in fund balances - Total governmental funds to arrive at changes in Net position of governmental activities	<u>\$ (233,005)</u>

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
 (CONTINUED)**

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

One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$68,922 difference are as follows:

Note payable - current year issued	\$ (132,995)
Lease payable – current year issued	(173,073)
Bond payable – principal repayments	140,000
Note payable – principal repayments	82,442
Lease payable – principal repayments	<u>14,703</u>
Net adjustment to decrease total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (68,923)</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$3,839 difference are as follows:

Compensated absences	\$ 9,820
OPEB expense	<u>(5,981)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 3,839</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds except the capital project fund. The capital projects fund is budgeted in a multi-year manner. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The City’s department heads may make transfers of appropriations within a department with approval of the City Manager. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level. The budget was approved September 13, 2016.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Excess of Expenditures over Appropriations

For the fiscal year ended September 30, 2017, the City of Gatesville’s actual expenditures exceeded budget in the following accounts. Explanations of the variances are coded to the section of this note located below the table.

	Appropriations	Excess of Expenditures Over Appropriations
a. General Fund – Public Safety - Courts	\$ 138,525	\$ 2,601
b. General Fund – Culture & Recreation – Parks, recreation & cemetery	\$ 101,541	\$ 4,996
c. General Fund – Debt Svc - Principal	\$ 260,865	\$ 14,482
d. General Fund – Debt Svc – Interest	\$ 700	\$ 604
e. General Fund – Capital Outlay	\$ 249,401	\$ 428,093

- a. An unfavorable variance resulted from expenses transferred from other unbudgeted funds.
- b. An unfavorable variance resulted from unforeseen expenses.
- c. An unfavorable variance resulted from additional principal payments due to leasing.
- d. An unfavorable variance resulted from additional interest reported at year end.
- e. An unfavorable variance resulted from recording total cost of assets in construction in progress at year end.

IV. DETAILED NOTES ON ALL FUNDS

1. Deposits and Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City of Gatesville to invest its funds under a written investment policy that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under chapter 2256 of the Texas Government Code.

The City’s deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes a list of authorized investment instruments and a maximum allowable stated maturity of any individual investment. In addition, it includes an “investment strategy statement” that specifically addresses each fund’s investment strategy and maximum maturity of each fund’s individual investments.

The Finance Director submits an investment report each quarter to the City Council. The report details the investment position of the City and the compliance of the investment portfolio as it relates to the investment policy and Texas State law. The City is in substantial compliance with the requirements of the Public Funds Investment Act and with local policies.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Fully insured or collateralized certificates of deposit or share certificates at commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

2. A savings account issued by a depository institution that has its main office or a branch office in the State of Texas and meets the collateralization requirements as stated in the City's depository contract.
3. Eligible investment pools (as discussed in the Public Funds Investment Act, Section 2256.016-2256.019) if the City Council by resolution authorized investment in that particular pool. An investment pool shall invest the funds it receives from the City in authorized investments permitted by the Public Funds Investment Act.
4. Direct obligations of the United States Government, which have a final maturity date of two years or less from the date of purchase.
5. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities.
6. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent.

Under the City investment policy, the City may not invest in repurchase agreements, collateralized mortgage obligations, and any other investment instrument that is not specifically listed as an authorized investment.

The City has invested in TexPool Investment Pool, a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. TexPool Investment Pool's Liquidity Plus Fund uses a dollar weighted average maturity of 120 days or fewer and the net asset value of the shares invested are expected to maintain a net asset value of approximately \$1. The net asset value of the shares invested in the fund do not fluctuate based on the fund's current market value.

The City does not own specific, identifiable investments with TexPool Investment Pool. The City considers the holdings in these pools to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Deposits – Custodial credit risk for deposits is the risk in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. State statutes require 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 having a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized with securities held by the City or its agent in the City's name or the pledging financial institution's trust department or agent in the City's name at September 30, 2017.

At September 30, 2017, the carrying amount of the City's deposits was \$3,665,508, and the respective bank balances totaled \$3,323,214. Of the bank balances, \$250,000 was covered by federal depository insurance. Collateral for the bank balances over the federal depository insurance amount consisted of securities with a fair market value of \$7,722,145 at September 30, 2017.

CITY OF GATESVILLE

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

SEPTEMBER 30, 2017

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

Investments – Custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City’s investment policy requires that securities be insured and registered in the name of the City. All safekeeping receipts for investment instruments are held in accounts in the City’s name, and all securities are registered in the City’s name.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City’s investment policy provides that to the extent practicable, investments are matched with anticipated cash flows.

Credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. Such risk shall be controlled by investing in compliance with the City’s investment policy, qualifying the broker and financial institution with which the City will transact, portfolio diversification, and limiting maturity. The following table includes the portfolio balances of all investment types of the City at September 30, 2017.

	<u>Fair Value/Carrying Value</u>			<u>Weighted Average</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Cost</u>
				<u>Days to Maturity (1)</u>
Investments:				
Local government investment pools:				
TexPool Investment Pool	-	-	-	-
Total local government investment pools	-	-	-	1

(1) Interest rate risk is estimated using weighted average days to maturity.

As of September 30, 2017, the City of Gatesville’s investments were rated by Standard & Poor’s as follows:

	Average Credit Quality/ Ratings
TexPool Investment Pool	AAAm

A reconciliation of cash and investments as shown on the Statement of Net Position for the City follows:

Cash on hand	\$ 1,400
Carrying amount of deposits	3,665,508
Carrying amount of investments	<u>-</u>
Total Cash and Investments	<u>\$ 3,666,908</u>

2. Receivables

Receivables as of September 30, 2017, for the City’s individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectibles accounts, consist of the following:

	<u>General</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total</u>
Receivables:				
Account, net of allowance	\$244,392	\$944,813	-	\$1,189,205
Taxes, net of allowance	33,216	-	-	33,216
	<u>\$277,608</u>	<u>\$944,813</u>	<u>-</u>	<u>\$1,222,421</u>

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets

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

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 636,543	\$ -	\$ -	\$ -	\$ 636,543
Construction in progress	-	395,314	-	-	395,314
Total assets not being depreciated	<u>636,543</u>	<u>395,314</u>	<u>-</u>	<u>-</u>	<u>1,031,857</u>
Capital assets, being depreciated:					
Buildings and improvements	6,674,121	32,102	-	-	6,706,223
Machinery and equipment	3,715,214	423,152	(93,373)	-	4,044,993
Total capital assets being depreciated	<u>10,389,335</u>	<u>455,254</u>	<u>(93,373)</u>	<u>-</u>	<u>10,751,216</u>
Less accumulated depreciation:					
Buildings and improvements	1,745,829	725,178	-	-	2,471,007
Machinery and equipment	2,460,661	358,395	(93,373)	-	2,725,683
Total accumulated depreciation	<u>4,206,490</u>	<u>1,083,573</u>	<u>(93,373)</u>	<u>-</u>	<u>5,196,690</u>
Total capital assets being depreciated, net	<u>6,182,845</u>	<u>(628,319)</u>	<u>-</u>	<u>-</u>	<u>5,554,526</u>
Governmental activities capital assets, net	<u>\$ 6,819,388</u>	<u>\$ (233,005)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,586,383</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 300,339	\$ -	\$ -	\$ -	\$ 300,339
Construction in progress	68,449	673,311	(17,190)	-	724,570
Total assets not being depreciated	<u>368,788</u>	<u>673,311</u>	<u>(17,190)</u>	<u>-</u>	<u>1,024,909</u>
Capital assets, being depreciated:					
Buildings and improvements	52,729,884	85,666	-	-	52,815,550
Machinery and equipment	5,558,450	278,246	(86,056)	-	5,750,640
Total capital assets being depreciated	<u>58,288,334</u>	<u>363,912</u>	<u>(86,056)</u>	<u>-</u>	<u>58,566,190</u>
Less accumulated depreciation:					
Buildings and improvements	26,887,592	1,697,239	-	-	28,584,831
Machinery and equipment	4,578,602	291,163	(86,056)	-	4,783,709
Total accumulated depreciation	<u>31,466,194</u>	<u>1,988,402</u>	<u>(86,056)</u>	<u>-</u>	<u>33,368,540</u>
Total capital assets being depreciated, net	<u>26,822,140</u>	<u>(1,624,490)</u>	<u>-</u>	<u>-</u>	<u>25,197,650</u>
Business-type activities capital assets, net	<u>\$ 27,190,928</u>	<u>\$ (951,179)</u>	<u>\$ (17,190)</u>	<u>\$ -</u>	<u>\$ 26,222,559</u>

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets (Continued)

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

Governmental Activities:	
Cultural and recreation	\$ 118,392
Public safety	148,260
General government	29,015
Public works	<u>787,906</u>
Total depreciation expense – governmental activities	<u>\$ 1,083,573</u>
Business-type Activities:	
Water and sewer	\$ 1,965,921
Airport	<u>22,481</u>
Total depreciation expense – business-type activities	<u>\$ 1,988,402</u>

4. Interfund Receivables, Payables, and Transfers

Interfund balances at September 30, 2017 consisted of the following:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	<u>\$ 176,759</u>
Total		<u>\$ 176,759</u>

Transfers between funds:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Proprietary Fund	\$ 520,997	\$ -
Non Major Government Fund	78,905	-
Agency Fund	-	1,350
Proprietary Fund		
General Fund	-	520,997
Non Major Government Fund		
General Fund	-	78,905
Agency Fund		
General Fund	<u>1,350</u>	<u>-</u>
	<u>\$ 601,252</u>	<u>\$ 601,252</u>

Eliminations

Interfund receivables, payables, and transfers are reported in the governmental and proprietary fund financial statements. In the entity-wide statements, interfund receivables, payables, and transfers are eliminated within the governmental activities column and business-type column, as appropriate.

Purpose of Transfers

Transfers to the General Fund are used for indirect costs deemed necessary for operations of the transferring funds but are paid through the General Fund. Transfers to the Agency Fund are for payments.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

5. Long-term Debt

At September 30, 2017, long-term debt of the City consists of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,225,000	\$ -	\$ (140,000)	\$ 1,085,000	\$ 145,000
Compensated absences	128,357	333,705	(343,525)	118,537	52,439
Note payable	425,488	132,995	(82,442)	476,041	73,970
Lease payable	-	173,073	(14,703)	158,370	34,615
Net pension liability	2,437,414	649,408	(688,674)	2,398,148	-
Net OPEB obligation	66,408	5,981	-	72,389	-
Total governmental activities	<u>\$ 4,282,667</u>	<u>\$ 1,295,162</u>	<u>\$ (1,269,344)</u>	<u>\$ 4,308,485</u>	<u>\$ 306,024</u>
Business-type activities:					
Certificates of obligations	\$ 10,365,000	\$ -	\$ (570,000)	\$ 9,795,000	\$ 600,000
Discount	(6,851)	-	-	(6,851)	-
Revenue bonds	4,805,000	-	(4,675,000)	130,000	130,000
Refunding bonds	-	4,975,000	-	4,975,000	65,000
Compensated absences	66,545	190,013	(192,018)	64,540	64,540
Note payable	180,000	949,000	(180,000)	949,000	12,342
Lease payable	-	125,708	(14,760)	110,948	25,142
Net pension liability	1,197,657	331,719	(351,776)	1,177,600	-
Net OPEB obligation	59,851	5,390	-	65,241	-
Total business-type activities	<u>\$ 16,667,202</u>	<u>\$ 6,576,830</u>	<u>\$ (5,983,554)</u>	<u>\$ 17,260,478</u>	<u>\$ 897,024</u>

The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund.

Future governmental debt service requirements are as follows:

Year Ended September 30,	Governmental Activities								
	General Obligation Bonds			Notes Payable			Lease Payable		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 145,000	\$ 22,174	\$ 167,174	\$ 73,970	\$ 14,455	\$ 88,425	\$ 34,615	\$ 3,447	\$ 38,062
2019	150,000	18,944	168,944	65,738	10,704	76,442	41,252	3,447	44,699
2020	150,000	15,658	165,658	65,738	9,155	74,893	41,252	3,447	44,699
2021	155,000	12,318	167,318	65,738	8,107	73,845	41,251	3,447	44,698
2022	160,000	8,870	168,870	65,738	7,059	72,797	-	-	-
2023-2024	325,000	7,172	332,172	139,119	3,845	142,964	-	-	-
	<u>\$ 1,085,000</u>	<u>\$ 85,136</u>	<u>\$ 1,170,136</u>	<u>\$ 476,041</u>	<u>\$ 53,325</u>	<u>\$ 529,366</u>	<u>\$ 158,370</u>	<u>\$ 13,788</u>	<u>\$ 172,158</u>

The General Obligation Refunding Bonds, Series 2014, were issued to make improvements to the streets and public works of the City. They were also used to pay for professional services rendered in relation to the project including the payment of costs related to the issuance.

The Tax and Utility System Surplus Revenue Certificates of Obligation, Series 1999, were issued to make improvements and extensions to the City's combined Waterworks and Sanitary Sewer System, including wastewater treatment and collection facilities. They were also used to pay for professional services rendered in relation to the project including the payment of costs related to the issuance.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

5. Long-term Debt (continued)

The Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2007, were issued to make improvements and extensions to Fort Hood. They were also used to pay for professional services rendered in relation to the project including the payment of costs related to the issuance.

The Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2011, were issued to make improvements and extensions to the City's combined Waterworks and Sanitary Sewer System. They were also used to pay for professional services rendered in relation to the project including the payment of costs related to the issuance.

The General Obligation Refunding Bonds, Series 2017, were issued to be used to advance refund a portion of the City's outstanding Utility System Revenue Bonds, Taxable Series 2008. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal was \$4,975,000. The bonds bear interest between 1.75% and 4.25% payable in annual installments of \$65,000 to \$365,000 through September 1, 2036.

Future business-type debt service requirements are as follows:

Year Ended September 30	Business-type Activities								
	Certificates of Obligation, Revenue and Refunding Bonds			Notes Payable			Lease Payable		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 795,000	\$ 685,962	\$ 1,480,962	\$ 12,342	\$ 49,351	\$ 61,693	\$ 25,142	\$ 2,607	\$ 27,749
2019	625,000	646,135	1,271,135	50,780	31,477	82,257	28,602	2,607	31,209
2020	655,000	621,460	1,276,460	52,544	29,713	82,257	28,602	2,607	31,209
2021	685,000	594,853	1,279,853	54,369	27,888	82,257	28,602	2,607	31,209
2022	715,000	566,310	1,281,310	56,258	25,999	82,257	-	-	-
2023-2027	4,140,000	2,324,373	6,464,373	312,003	99,280	411,283	-	-	-
2028-2032	3,815,000	1,348,813	5,163,813	370,098	41,184	411,282	-	-	-
2033-2037	3,470,000	423,130	3,893,130	40,606	520	41,126	-	-	-
	<u>\$ 14,900,000</u>	<u>\$ 7,211,036</u>	<u>\$ 22,111,036</u>	<u>\$ 949,000</u>	<u>\$ 305,412</u>	<u>\$ 1,254,412</u>	<u>\$ 110,948</u>	<u>\$ 10,428</u>	<u>\$ 121,376</u>

6. Ad Valorem Taxes

Property taxes are assessed and collected by the Tax Appraisal District of Coryell County. The tax calendar is as follows:

- Levy date: October 1 of the tax year
- Due date: January 31 of year following the tax year, without penalty
- Collection date: Beginning in October of the tax year
- Lien date: January 1 of the tax year

The effective tax rate during fiscal year ended September 30, 2017, was \$0.46 per \$100 valuation.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

7. Texas Department of Corrections Water Service Contracts

The City has an agreement to supply water and sewer disposal for the Texas Department of Corrections. The cost of water and sewer services to the Texas Department of Corrections is based on 1) charges for raw water supplied, 2) operation and maintenance charges based on volume and 3) an allocation of total construction costs. Payments for these charges began in March of 1990, and the monthly charges for these items are as follows:

	<u>Water</u>	<u>Sewer</u>
Mountainview, Hilltop and Gatesville Units	\$2.30 per 1,000 Base charge: \$20	\$2.38 per 1,000 Base charge: None
Hughes Unit	#1 - \$2.30 per 1,000 Base charge: \$20	\$2.38 per 1,000 Base Charge: None
	#2 - \$2.30 per 1,000 Base charge: \$20	
Woodman and Murry Units	#1 - \$1.39 per 1,000	\$1.02 per 1,000
	#2 - \$1.39 per 1,000	\$1.02 per 1,000

V. OTHER INFORMATION

1. Risk Management

The City is exposed to various risks of loss related to torts: theft; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Texas Municipal League Intergovernmental Risk Pool (TML), a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to TML for its general insurance coverage, real and personal property coverage, liability coverage, and workers compensation coverage. The agreement for formation for TML provides that TML will be self-sustaining through member premiums.

2. Employee Benefit Plans

Texas Municipal Retirement System Plan

Plan Description

The City of Gatesville participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit 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 that can be obtained from TMRS' website at www.TMRS.com.

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

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

Benefits Provided

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

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

Upon retirement, benefits depend upon the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. Prior service credits: At inception, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Current service credits: The monetary credits for service since the plan began are a percent of the employee's accumulated contributions based on the city's matching rate in effect at the time the employee contributions are made. Updated service credits: This monetary credit is determined by recalculating the member's account balance by assuming that the current member deposit rate of the currently employing city has always been in effect to create a hypothetical balance. This hypothetical account balance is increased by 3% each year.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

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

Inactive employees or beneficiaries currently receiving benefits	45
Inactive employees entitled to but not yet receiving benefits	22
Active employees	76

Contributions

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

Employees for the City of Gatesville were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Gatesville were 15.90% and 15.59% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$548,748, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

Actuarial assumptions

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

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plant investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

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

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

Discount Rate

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

Changes in the Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2015	16,775,713	13,140,642	3,635,071
Changes for the year:			
Service cost	574,521	-	574,521
Interest	1,130,444	-	1,130,444
Change in benefit terms	-	-	-
Difference between expected and actual experience	(92,529)	-	(92,529)
Changes of assumptions	-	-	-
Contributions – employer	-	551,291	(551,291)
Contributions – employee	-	242,706	(242,706)
Net investment income	-	888,332	(888,332)
Benefit payments, including refunds of employee contributions	(631,309)	(631,309)	-
Administrative expense	-	(10,030)	10,030
Other changes	-	(540)	540
Net changes	981,127	1,040,450	(59,323)
Balance at 12/31/2016	<u>17,756,840</u>	<u>14,181,092</u>	<u>3,575,748</u>

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$6,160,797	\$3,575,748	\$1,467,557

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

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

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

For the year ended the September 30, 2017, the recognized pension expense of \$789,947.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ (72,370)	
Changes in actuarial assumptions	8,929	
Difference between projected and actual investment earnings	(1,071)	
Contributions subsequent to the measurement date	424,352	
Total	\$ 359,840	-

\$424,352 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2017	204,111
2018	169,868
2019	142,321
2020	(12,160)
2021	
Thereafter	

Supplemental Death Benefits Fund

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

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

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

There is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (continued)

Schedule of Contributions Rates:
 (Retiree-only portion of the rate)

Calendar Year	Annual Required Contribution Rate	Actual Contribution Made	Percentage of ARC Contributed
2014	0.06%	0.06%	100.0%
2015	0.06%	0.06%	100.0%
2016	0.06%	0.06%	100.0%
2017	0.06%	0.06%	100.0%

3. Post Employment Benefits Other than Pension Benefits

In addition to the pension benefits described in Note V.2. as required by state law and defined by City Policy, the City makes available health care benefits to all employees who retire from the City according to the terms of the City's current health plan. The full cost of the coverage is paid by the retiree, with the rates being the same as an active employee.

Annual OPEB Cost

The City's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The City's annual OPEB cost for the fiscal year ending September 30, 2017 is as follows:

Net OPEB Obligation:

Annual required contribution	\$ 22,940
Interest on OPEB obligation	5,050
Adjustment to annual required contribution	<u>(4,920)</u>
Annual OPEB cost (expense) end of year	23,070
Net estimated employer contributions	<u>(11,699)</u>
Increase in net OPEB obligation	11,371
 Net OPEB obligation, beginning of year	 <u>126,259</u>
Net OPEB obligation, end of year	<u>\$ 137,630</u>

The City's annual OPEB cost, the amount contributed by the employer, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2017 and the preceding two fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation
September 30, 2015	\$23,045	\$2,580	11.2%	\$112,812
September 30, 2016	\$22,388	\$8,941	39.9%	\$126,259
September 30, 2017	\$23,070	\$11,699	50.7%	\$137,630

CITY OF GATESVILLE
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2017

V. OTHER INFORMATION (CONTINUED)

3. Postemployment Benefits Other than Pensions (continued)

Funded Status

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of December 31, 2015 is as follows:

Actuarial Valuation Date		12/31/15
Actuarial Value of Assets	(a)	\$0
Actuarial Accrued Liability (AAL)	(b)	\$197,945
Unfunded AAL (UAAL)	(b-a)	\$197,945
Funded Ratio	(a/b)	0.0%
Annual Covered Payroll	(d)	\$ 3,485,215
UAAL as a Percentage of Covered Payroll	(b-a)/d	5.68%

Under the reporting parameters, the City's retiree health care plan is 0.0% funded with the actuarial accrued liability exceeding the actuarial assets by \$197,945 at December 31, 2015. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 5.68%.

Actuarial Methods and Assumptions

The Projected Unit Credit Cost Method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The actuarial cost method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions

Inflation rate	2.50% per annum
Investment rate of return	4.00%, net of expenses
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Payroll Growth	3.00% per annum
Medical Trend	Initial rate of 7.50% declining to an ultimate Rate of 4.25% after 15 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF GATESVILLE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

V. OTHER INFORMATION (CONTINUED)

4. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

**REQUIRED
SUPPLEMENTARY INFORMATION**

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CITY OF GATESVILLE
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30 2017

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN YEARS (will ultimately be displayed)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service Cost	\$ 574,521	\$ 578,197	\$ 506,716
Interest (on the Total Pension Liability)	1,130,444	1,115,252	1,029,818
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(92,529)	(214,116)	264,700
Change of assumptions	-	16,497	-
Benefit payments, including refunds of employee contributions	<u>(631,309)</u>	<u>(726,384)</u>	<u>(506,596)</u>
Net Change in Total Pension Liability	\$ 981,127	\$ 769,446	\$ 1,294,638
Total Pension Liability - Beginning	<u>16,775,713</u>	<u>16,006,267</u>	<u>14,711,629</u>
Total Pension Liability - Ending (a)	<u><u>\$ 17,756,840</u></u>	<u><u>\$ 16,775,713</u></u>	<u><u>\$ 16,006,267</u></u>
Plan fiduciary Net Position			
Contributions - Employer	\$ 551,291	\$ 548,786	\$ 527,696
Contributions - Employee	242,706	245,328	236,938
Net Investment Income	888,332	19,281	693,519
Benefit payments, including refunds of employee contributions	(631,309)	(726,384)	(506,596)
Administrative Expense	(10,030)	(11,743)	(7,240)
Other	<u>(540)</u>	<u>(579)</u>	<u>(595)</u>
Net Change in Plan Fiduciary Net Position	\$ 1,040,450	\$ 74,689	\$ 943,722
Plan Fiduciary Net Position - Beginning	<u>13,140,642</u>	<u>13,065,953</u>	<u>12,122,231</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 14,181,092</u></u>	<u><u>\$ 13,140,642</u></u>	<u><u>\$ 13,065,953</u></u>
Net Pension Liability - Ending (a) - (b)	\$ 3,575,748	\$ 3,635,071	\$ 2,940,314
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	79.86%	78.33%	81.63%
Covered Employee Payroll	\$ 3,467,235	\$ 3,485,215	\$ 3,384,835
Net Pension Liability as a Percentage of Covered Employee Payroll	103.13%	104.30%	86.87%

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CITY OF GATESVILLE
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2017

SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS (will ultimately be displayed)

	Fiscal Year <u>2017</u>	Fiscal Year <u>2016</u>	Fiscal Year <u>2015</u>
Actuarially Determined Contribution	\$ 548,748	\$ 570,438	\$ 547,508
Contributions in relation to the actuarially determined contribution	<u>548,748</u>	<u>570,438</u>	<u>547,508</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,540,264	\$ 3,602,812	\$ 3,317,279
Contributions as a percentage of covered employee payroll	15.50%	15.83%	16.50%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 year smoothed marked; 15% soft corridor
Inflation	2.50%
Salary Increases	3.5% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generated basis with scale BB

Other Information:

Notes: There were no benefit changes during the year.

CITY OF GATESVILLE
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2017

OTHER POSTEMPLOYMENT BENEFITS
ANALYSIS OF FUNDING PROGRESS

The schedule of funding progress for Other Postemployment Benefits is as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL(UAAL) (2)-(1)
12/31/2010	0	259,793	(259,793)
12/31/2011	0	259,793	(259,793)
12/31/2012	0	218,321	(218,321)
12/31/2013	0	218,321	(213,821)
12/31/2014	0	218,321	(218,321)
12/31/2015	0	197,945	(197,945)
12/31/2016	0	197,945	(197,945)

Actuarial Valuation Date	(4) Funded Obligation (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll ((2)-(1)/(5))
12/31/2010	0%	2,808,477	9.25%
12/31/2011	0%	2,839,642	9.15%
12/31/2012	0%	3,094,512	7.06%
12/31/2013	0%	2,589,398	8.43%
12/31/2014	0%	2,940,314	7.43%
12/31/2015	0%	3,485,215	5.68%
12/31/2016	0%	3,467,235	5.71%

The actuarial information presented is determined by an actuarial valuation and is the amount that results from applying various assumptions with regard to future employment, mortality, and the healthcare cost trend.

Note: The most recent actuarial valuation was December 31, 2015.

**COMBINING
FUNDS STATEMENTS**

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CITY OF GATESVILLE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	<u>Special Revenue</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Motel/Hotel Occupancy Tax</u>	
ASSETS		
Cash and investments	\$ 94,759	\$ 94,759
Total Assets	\$ 94,759	\$ 94,759
LIABILITIES		
Accounts payable	\$ -	\$ -
Total Liabilities	-	-
FUND BALANCES		
Restricted for:		
Other	94,759	94,759
Total Fund Balances	94,759	94,759
Total Liabilities and Fund Balances	\$ 94,759	\$ 94,759

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CITY OF GATESVILLE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	<u>Special Revenue</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Motel/Hotel Occupancy Tax</u>	
REVENUES		
Occupancy taxes	\$ 126,906	\$ 126,906
Investments	998	998
Contributions and donations	12,975	12,975
	<u>140,879</u>	<u>140,879</u>
EXPENDITURES		
Culture and recreation	31,828	31,828
	<u>31,828</u>	<u>31,828</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>109,051</u>	<u>109,051</u>
OTHER FINANCING SOURCES (USES)		
Transfers in (out)	(78,905)	(78,905)
	<u>(78,905)</u>	<u>(78,905)</u>
NET CHANGE IN FUND BALANCES	30,146	30,146
FUND BALANCES , BEGINNING	<u>64,613</u>	<u>64,613</u>
FUND BALANCES, ENDING	<u>\$ 94,759</u>	<u>\$ 94,759</u>

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OTHER SCHEDULES

CITY OF GATESVILLE, TEXAS

SCHEDULE OF INSURANCE COVERAGE

SEPTEMBER 30, 2017

(UNAUDITED)

<u>NAME OF INSURER</u>	<u>CONTRACT NUMBER</u>	<u>LIMITS</u>	<u>COVERAGE</u>	<u>EXP. DATE</u>
Texas Municipal League	2180	\$3,000,000/ occurrence \$500/deductible occurrence	Auto Liability	10/1/2017
Texas Municipal League	2180	\$1,000,000/ occurrence/ \$2,000,000/ annual aggregate \$0 deductible/ occurrence/	General Liability	10/1/2017
Texas Municipal League	2180	\$5,000,000 each claim/\$10,000,000 annual aggregate/ \$5,000 deductible occurrence	Public officials and employee liability errors and omissions	10/1/2017
Texas Municipal League	2180	\$3,000,000 each occurrence/ \$6,000,000 annual aggregate/\$5,000 deductible	Law enforcement liability	10/1/2017

(continued)

CITY OF GATESVILLE, TEXAS

SCHEDULE OF INSURANCE COVERAGE
(Continued)

SEPTEMBER 30, 2017

(UNAUDITED)

<u>NAME OF INSURER</u>	<u>CONTRACT NUMBER</u>	<u>LIMITS</u>	<u>COVERAGE</u>	<u>EXP. DATE</u>
Texas Municipal League	2180	\$500/deductible per vehicle/ \$10,000 per occurrence/limit varies-dependent on carrying value	Auto physical damage	10/1/2017
Texas Municipal League	2180	\$2,000,000/aggregate \$0 deductible	General Liability hazards	10/1/2017
Texas Municipal League	2180	\$5,000,000/occurrence \$0 deductible	Chartered non-owned aircraft liability	10/1/2017
Texas Municipal League	2180	\$33,085,180 coverage limit/ \$2,500 deductible \$1,000,000 transit limit	Real and personal property	10/1/2017
Texas Municipal League	2180	\$1,718,805 coverage limit/\$2,500 deductible	Mobile equipment	10/1/2017
Texas Municipal League	2180	\$2,600,000 coverage limit/ \$2,500 deductible	Boiler and machinery	10/1/2017

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CITY OF GATESVILLE, TEXAS

SCHEDULE OF CUSTOMERS

WATER AND SEWER ENTERPRISE FUND

SEPTEMBER 30, 2017

(UNAUDITED)

Active water connections	3,286 customers
Active sewer connections	2,951 customers

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COMPLIANCE SECTION

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Lott, Vernon & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

Ronald E. Stepp, CPA
Jerry D. Tyroch Jr., CPA
Dane Legg, CPA
Deborah K. Hershberger, CPA

**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
Members of the City Council
City of Gatesville, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gatesville, Texas as and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Gatesville, Texas' basic financial statements, and have issued our report thereon dated December 21, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of the 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.

A handwritten signature in black ink that reads "Lott, Vernon & Co., P.C." in a cursive, flowing script.

Lott, Vernon & Company P.C.
Killeen, Texas
December 21, 2017