

CITY OF LULING, TEXAS
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
MARCH 31, 2018

CITY OF LULING, TEXAS
Annual Financial Report
FOR THE FISCAL YEAR ENDED MARCH 31, 2018

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Luling, Texas

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 the City of Luling, Texas, as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 Luling, Texas, as of March 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the Grant Fund, the Court Security Fund, The Technology Fund and the Debt Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Employees Retirement System Information on pages 3–10 and 62-63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wayne R. Beyer

BEYER & COMPANY
Certified Public Accountants
September 12, 2018

Management's Discussion and Analysis

As management of the City of Luling, Texas, we offer readers of the City of Luling, Texas' financial statements this narrative overview and analysis of the financial activities of the City of Luling, Texas for the fiscal year ended March 31, 2018.

Financial Highlights

- . The assets of the City of Luling, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$16,347,847 (Net Position). Of this amount, \$1,932,399 or 12% (unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors.
- . The government's total Net Position increased by \$402,591. This increase was mainly the result of the following: utility capital grant of \$249,161 and an increase in utility charges for services of \$210,085.
- . The City of Luling, Texas' total restricted Net Position at March 31, 2018 is \$3,256,222 or 20%. The decrease of \$530,260 is due mainly to electric and wastewater system improvements.
- . The City of Luling, Texas' total debt decreased by \$567,136 (5 percent) during the current fiscal year. The key factor in this decrease was bond payments of \$630,000.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Luling, Texas' basic financial statements. The City of Luling, Texas' 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 of Luling, Texas' finances, in a manner similar to a private-sector business.

The statement of Net Position presents information on all of the City of Luling, Texas' 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 of Luling, Texas is improving or deteriorating. The statement of activities presents information showing how the government's Net Position changed during the most recent fiscal year. All changes in Net Position are reported as soon as 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 vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Luling, Texas that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Luling, Texas include general administration, public safety, public transportation, health and welfare, and culture and recreation. The business-type activities of the City of Luling, Texas include the Electric, Water and Sewer, and the Garbage functions. The government-wide financial statements include only the City of Luling, Texas itself (known as the primary government). The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Luling, Texas, 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 of Luling, Texas can be divided into three categories: governmental funds, fiduciary 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 near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of Luling, Texas maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, the grant fund, the court security fund, and the technology fund all of which are considered to be major funds.

The City of Luling, Texas adopts an annual appropriated budget for its general fund, the debt service fund, the grant fund, the court security fund, and the technology fund. A budgetary comparison statement has been provided for the general fund, the debt service fund, the grant fund, the court security fund, and the technology fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-21 of this report.

Proprietary funds: The City of Luling, Texas 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 of Luling, Texas uses enterprise funds to account for its Utility activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility fund which is considered to be a major fund of the City of Luling, Texas.

The basic proprietary fund financial statements can be found on pages 22-26 of this report.

Agency Funds: The City of Luling, Texas also has two agency funds presented in this report. Such funds are not included in the government wide statement but are shown separately on pages 27 and pages 64-65.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-61 of this report. Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Luling, Texas' progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be

found on pages 62-63 of this report. The combining agency funds can be found on pages 64-65. Government-wide Financial Analysis

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the City of Luling, Texas, assets exceeded liabilities by \$16,347,847 at the close of the most recent fiscal year.

By far the largest portion of the City of Luling, Texas' Net Position (68 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Luling, Texas uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Luling, Texas' 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 LULING, TEXAS
NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other Assets	\$1,380,244	\$1,639,529	\$2,462,496	\$1,525,608	\$3,842,740	\$3,165,137
Restricted Assets:	547,439	537,204	2,813,030	3,393,656	3,360,469	3,930,860
Capital Assets:	4,852,802	4,948,610	16,905,358	17,011,120	21,758,160	21,959,730
Total Assets	6,780,485	7,125,343	22,180,884	21,930,384	28,961,369	29,055,727
Total Deferred Outflows of Resources	396,505	307,414	170,984	109,815	567,489	417,229
Long-term Liabilities	2,052,881	2,073,923	9,795,549	10,341,643	11,848,430	12,415,566
Other Liabilities	369,615	428,984	822,786	542,782	1,192,401	971,766
Total Liabilities	2,422,496	2,502,907	10,618,335	10,884,425	13,040,831	13,387,332
Total Deferred Inflows of Resources	96,364	101,619	43,816	38,749	140,180	140,368
Invested in Capital Assets, Net of Related Debt	4,129,815	4,192,800	7,029,411	7,087,709	11,159,226	11,280,509
Restricted	387,917	392,826	2,868,305	3,393,656	3,256,222	3,786,482
Unrestricted	140,398	242,605	1,792,001	635,660	1,932,399	878,265
Total Net Position	\$4,658,130	\$4,828,231	\$11,689,717	\$11,117,025	\$16,347,847	\$15,945,256

An additional portion of the City of Luling, Texas' Net Position (20 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted Net Position (\$1,932,399) may be used to meet the governments on going obligations to citizens and creditors. At the end of the current fiscal year, the City of Luling, Texas reported a positive balance in the governmental activities and a positive balance in the business-type activities. For the prior fiscal year, the City of Luling, Texas reported 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.

The government's total Net Position increased by \$402,591. This increase was mainly the result of the following: utility capital grant of \$249,161 and an increase in utility charges for services of \$210,085.

Governmental activities:

Governmental activities decreased the City of Luling, Texas' Net Position by \$170,101, thereby accounting for 0 percent of the total growth in the Net Position of the City of Luling, Texas. The primary reason for a decrease in net position were flood related expenditures of \$52,000.

CITY OF LULING, TEXAS
CHANGE IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for Services	\$99,035	\$211,199	\$8,874,439	\$8,664,354	\$8,973,474	\$8,875,553
Operating Grants and Contributions	138,966	89,450			138,966	89,450
Capital Grants and Contributions			249,161		249,161	0
General Revenues:						
Maintenance and Operations Taxes	1,205,794	1,131,979			1,205,794	1,131,979
Sales Taxes	846,644	837,428			846,644	837,428
Franchise Taxes	160,049	117,066			160,049	117,066
Licenses and Permits	64,319	51,333			64,319	51,333
Unrestricted Investment Earnings	14,839	6,912	35,450	16,072	50,289	22,984
Miscellaneous	300,471	341,636	115,014	96,371	415,485	438,007
Total Revenue	2,830,117	2,787,003	9,274,064	8,776,797	12,104,181	11,563,800
Expenses:						
General Administration	862,941	716,715			862,941	716,715
Public Safety	2,349,733	2,382,608			2,349,733	2,382,608
Public Transportation	725,976	634,197			725,976	634,197
Health and Welfare	5,443	5,443			5,443	5,443
Culture and Recreation	759,684	800,014			759,684	800,014
Public Facilities	13,994	18,056			13,994	18,056
Interest and Fiscal Charges	21,039	23,822	263,924	291,619	284,963	315,441
Utility			6,698,856	6,538,710	6,698,856	6,538,710
Total Expenses	4,738,810	4,580,855	6,962,780	6,830,329	11,701,590	11,411,184
Increase in Net Position before transfers and special items	(1,908,693)	(1,793,852)	2,311,284	1,946,468	402,591	152,616
Transfers	1,738,592	1,560,560	(1,738,592)	(1,560,560)	0	0
Increase in Net Position	(170,101)	(233,292)	572,692	385,908	402,591	152,616
Net Position at 03/31/2017	4,828,231	5,061,523	11,117,025	10,731,117	15,945,256	15,792,640
Net Position at 03/31/2018	\$4,658,130	\$4,828,231	\$11,689,717	\$11,117,025	\$16,347,847	\$15,945,256

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government			
Government activities:			
General Administration	\$862,941	\$0	\$0
Public Safety	2,349,733	99,035	138,966
Public Transportation	725,976		
Health and Welfare	5,443		
Culture and Recreation	759,684		
Public Facilities	13,994		
Interest and Fiscal Charges	21,039		
Total government activities	<u>\$4,738,810</u>	<u>\$99,035</u>	<u>\$138,966</u>

Revenues by source - Governmental Activities

	REVENUES	%
Charges for Services	\$99,035	3%
Operating Grants and Contributions	138,966	5%
Maintenance and Operations Taxes	1,205,794	43%
Sales Taxes	846,644	30%
Franchise Taxes	160,049	6%
Licenses and Permits	64,319	2%
Unrestricted Investment Earnings	14,839	1%
Miscellaneous	300,471	11%
	<u>\$2,830,117</u>	<u>100%</u>

Business-type activities:

Business-type activities increased the City of Luling, Texas' Net Position by \$572,692, thereby accounting for 100 percent of the total growth in the Net Position of the City of Luling, Texas. This increase was mainly the result of the following: utility capital grant of \$249,161 and an increase in utility charges for services of \$210,085.

Expenses and Program Revenues - Business Activities

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary government			
Business-type activities:			
Utility	\$6,962,780	\$8,874,439	\$249,161
Total business-type activities	<u>\$6,962,780</u>	<u>\$8,874,439</u>	<u>\$249,161</u>

Revenues by source - Business-type Activities

	<u>REVENUES</u>	<u>%</u>
Charges for Services	\$8,874,439	99%
Unrestricted investment earnings	35,450	0%
Miscellaneous	115,014	1%
	<u>\$9,024,903</u>	<u>100%</u>

Financial Analysis of the Government's Funds

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

Governmental funds:

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

As of the end of the current fiscal year, the City of Luling, Texas' governmental funds reported combined ending fund balances of \$1,277,257, a decrease of \$121,338 in comparison with the prior year. Approximately 63 percent of this total amount \$807,940 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted or deemed non-spendable.

The general fund is the chief operating fund of the City of Luling, Texas. At the end of the current fiscal year, unassigned fund balance of the general fund was \$807,940, while total fund balance reached \$889,340. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 14 percent of total general fund expenditures, while total fund balance represents 16 percent of that same amount.

The fund balance of the City of Luling, Texas' general fund decreased by \$116,429 during the current fiscal year. Key factor in this decrease is as follows:

- . This decrease was due primarily to expenditures related to Hurricane Harvey totaling in excess of \$68,000.

There is no analysis for the debt service fund because the only activity was a transfer of \$89,242 from the Utility Fund and \$92,288 in debt service expenditures.

There is no analysis for the grant fund because it exists mainly to administer federal and state grants and the income generally equals the expenditures.

There are no analysis of the court security fund and the technology fund because these funds are restrictive type funds whose monies are earmarked for special purposes (IE court defraying expenditures). These funds are relatively immaterial.

Proprietary funds:

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

Unrestricted Net Position of the Utility fund amounted to \$1,792,001 at year end. The increase in Net Position was \$572,692. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Luling, Texas' business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget in the general fund was a decrease of \$169,765. The main decrease was in E.M.S. which decreased by \$232,800 and the main increase was in Emergency Medical Services which increased by \$229,900.

Capital Asset and Debt Administration

Capital assets:

The City of Luling, Texas' investment in capital assets for its governmental and business-type activities as of March 31, 2018, amounts to \$21,458,160 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City of Luling, Texas' investment in capital assets for the current fiscal year was a 1 percent decrease (a 2 percent decrease for governmental activities and a 1 percent decrease for business-type activities).

CITY OF LULING, TEXAS CAPITAL ASSETS (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$806,236	\$806,236	\$135,284	\$135,284	\$941,520	\$941,520
Construction in Progress	15,635	15,635	330,435	42,660	346,070	58,295
Building and Improvements	2,038,364	2,083,804	149,732	138,315	2,188,096	2,222,119
Machinery and Equipment	350,721	356,670	61,107	136,335	411,828	493,005
Infrastructure	1,641,846	1,686,265			1,641,846	1,686,265
Distribution System			16,228,800	16,558,526	16,228,800	16,558,526
Total	<u>\$4,852,802</u>	<u>\$4,948,610</u>	<u>\$16,905,358</u>	<u>\$17,011,120</u>	<u>\$21,758,160</u>	<u>\$21,959,730</u>

Major capital asset events during the current fiscal year included the following:

The City had a wastewater system improvement project for the year ended March 31, 2018.

Additional information on the City of Luling, Texas' capital assets can be found in note IV C on pages 39 and 40 of this report.

Long-term debt:

At the end of the current fiscal year, the City of Luling, Texas had the following bonded debt.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>	<u>Due after one year</u>
<u>Governmental activities:</u>						
General Obligation Bonds	\$600,678		\$81,081	\$519,597	\$81,081	\$438,516
	<u>600,678</u>	<u>0</u>	<u>81,081</u>	<u>519,597</u>	<u>81,081</u>	<u>438,516</u>
<u>Business-type activities:</u>						
Revenue Bonds	9,859,322		548,919	9,310,403	558,919	8,751,484
	<u>9,859,322</u>	<u>0</u>	<u>548,919</u>	<u>9,310,403</u>	<u>558,919</u>	<u>8,751,484</u>
 Grand Total	 <u>\$10,460,000</u>	 <u>\$0</u>	 <u>\$630,000</u>	 <u>\$9,830,000</u>	 <u>\$640,000</u>	 <u>\$9,190,000</u>

The City of Luling, Texas' total bonded debt decreased by \$630,000 (6 percent) during the current fiscal year. The key factor in this decrease was bond payments of \$630,000.

Additional information on the City of Luling, Texas' long-term debt can be found in note IV F on pages 41-43 of this report.

Economic Factors:

1. City Departments were instructed to hold the line on the expenditures as major sources of revenue (most notable sales tax and electric sales) were in decline.
2. The City has been awarded a grant from NRCS to reclaim riverbank erosion at the Zedler Mill Park. Total project costs are estimated at \$4.5 million. The City's 10% funding match will be provided from surplus 2012 bond proceeds.
3. The City will receive assistance from FEMA to reimburse expenditures related to Hurricane Harvey.
4. Plans are underway for the construction of a large RV Travel Center which will provide increased employment and tax revenue to the local economy.

Requests for Information

This financial report is designed to provide a general overview of the City of Luling, Texas' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Department, 509 E. Crockett, Luling, Texas, 78648.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LULING, TEXAS
STATEMENT OF NET POSITION
MARCH 31, 2018

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Cash and Cash Equivalents	\$790,686	\$816,536	\$1,607,222
Receivables (net of allowance for uncollectibles)	508,158	1,626,306	2,134,464
Inventories		5,316	5,316
Prepaid Items	81,400	14,338	95,738
Restricted Assets:			
Cash and Cash Equivalents	502,642	2,813,030	3,315,672
Receivables (net of allowance for uncollectibles)	44,797		44,797
Capital assets not being depreciated:			
Land	806,236	135,284	941,520
Construction in Progress	15,635	330,435	346,070
Total Capital assets being depreciated, net			
Building and Improvements	2,038,364	149,732	2,188,096
Machinery and Equipment	350,721	61,107	411,828
Infrastructure	1,641,846	16,228,800	17,870,646
Total Assets	<u>\$6,780,485</u>	<u>\$22,180,884</u>	<u>\$28,961,369</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow of Resources-Contributions (after 12/31/17)	396,505	170,984	567,489
Total Deferred Outflows of Resources	<u>396,505</u>	<u>170,984</u>	<u>567,489</u>
LIABILITIES:			
Accounts Payable	\$298,795	\$663,902	\$962,697
Accrued Wages Payable	0	0	0
Security Deposits	69,633		69,633
Consumer Meter Deposit		139,253	139,253
Accrued Interest Payable	1,187	19,631	20,818
Noncurrent Liabilities:			
Due within one year	211,072	596,027	807,099
Due in more than one year	1,841,809	9,199,522	11,041,331
Total Liabilities	<u>2,422,496</u>	<u>10,618,335</u>	<u>13,040,831</u>
DEFERRED INFLOWS OF RESOURCES			
Bond Refunding Premium		2,261	2,261
<i>GASB 68</i>			
Difference in projected and actual earnings	96,108	41,445	137,553
Difference in expected and actual experience	256	110	366
Total Deferred Inflows of Resources	<u>96,364</u>	<u>43,816</u>	<u>140,180</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	4,129,815	7,029,411	11,159,226
Restricted for:			
Construction	87,584	372,195	459,779
Debt Service	265,589	6,237	271,826
Proceeds from Advanced Refunding		2,489,873	2,489,873
Public Safety	34,744		34,744
Unrestricted	140,398	1,792,001	1,932,399
Total Net Position	<u>\$4,658,130</u>	<u>\$11,689,717</u>	<u>\$16,347,847</u>

The accompanying notes are an integral part of this statement.

CITY OF LULING, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in		Net (Expense) Revenue and Changes in Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government							
Government Activities:							
General Administration	\$862,941	\$0	\$0	\$0	(\$862,941)		(\$862,941)
Public Safety	2,349,733	99,035	138,966		(2,111,732)		(2,111,732)
Public Transportation	725,976				(725,976)		(725,976)
Health and Welfare	5,443				(5,443)		(5,443)
Culture and Recreation	759,684				(759,684)		(759,684)
Public Facilities	13,994				(13,994)		(13,994)
Interest and Fiscal Charges	21,039				(21,039)		(21,039)
Total Government Activities	<u>4,738,810</u>	<u>99,035</u>	<u>138,966</u>	<u>0</u>	<u>(4,500,809)</u>	<u>0</u>	<u>(4,500,809)</u>
Business-Type Activities:							
Utility	6,962,780	8,874,439		249,161		2,160,820	2,160,820
Total Business-Type Activities	<u>6,962,780</u>	<u>8,874,439</u>	<u>0</u>	<u>249,161</u>	<u>0</u>	<u>2,160,820</u>	<u>2,160,820</u>
Total Primary Government	<u>\$11,701,590</u>	<u>\$8,973,474</u>	<u>\$138,966</u>	<u>\$249,161</u>	<u>(4,500,809)</u>	<u>2,160,820</u>	<u>(2,339,989)</u>
General Revenues							
Property Taxes, Levies for General Purposes					1,205,794		1,205,794
Sales Taxes					846,644		846,644
Franchise Taxes					160,049		160,049
License and Permits					64,319		64,319
Unrestricted Investment Earnings					14,839	35,450	50,289
Miscellaneous					300,471	115,014	415,485
Transfers					1,738,592	(1,738,592)	0
Total General Revenues and Transfers					<u>4,330,708</u>	<u>(1,588,128)</u>	<u>2,742,580</u>
Change in Net Position					(170,101)	572,692	402,591
Net Position - Beginning					4,828,231	11,117,025	15,945,256
Net Position - Ending					<u>\$4,658,130</u>	<u>\$11,689,717</u>	<u>\$16,347,847</u>

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF LULING, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2018

	General Fund	Debt Service Fund	Grants Fund	Court Security Fund	Technology Fund	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$788,126	\$0	\$0	\$0	\$2,560	\$790,686
Receivables (net of allowance for uncollectibles)	461,337					461,337
Prepaid Expenses	81,400					81,400
Restricted Assets:						
Cash and Cash Equivalents	162,082	265,589	42,787	32,184		502,642
Receivables (net of allowance for uncollectibles)			44,797			44,797
Total Assets	\$1,492,945	\$265,589	\$87,584	\$32,184	\$2,560	\$1,880,862
LIABILITIES AND FUND BALANCES:						
Accounts Payable	\$298,795					\$298,795
Deferred Revenues						0
Security Deposits	69,633					69,633
Total Liabilities	368,428	0	0	0	0	368,428
DEFERRED INFLOWS OF RESOURCES						
Deferred Property Taxes	235,177					235,177
Fund Balances:						
Non-Spendable						
Prepaid Expenses	81,400					81,400
Restricted						
Construction			87,584			87,584
Debt Service		265,589				265,589
Public Safety				32,184	2,560	34,744
Unassigned	807,940					807,940
Total Fund Balance	889,340	265,589	87,584	32,184	2,560	1,277,257
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$1,492,945	\$265,589	\$87,584	\$32,184	\$2,560	\$1,880,862

The accompanying notes are an integral part of this statement.

CITY OF LULING, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 MARCH 31, 2018

Total Fund Balances - governmental funds balance sheet

Amounts reported for governmental activities in the statement of Net Position ("SNA") are different because:	\$1,277,257
Capital assets used in governmental activities are not reported in the funds.	4,852,802
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	235,177
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	46,821
Deferred revenues in the funds are long-term liabilities in the SOA.	
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,054,068)
GASB 68	
Contributions (after 12/31/17)	396,505
Difference in expected and actual experience	(96,108)
Difference in projected and actual earnings	(256)
Net Position of governmental activities - statement of Net Position	<u>\$4,658,130</u>

The accompanying notes are an integral part of this statement.

CITY OF LULING, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2018

	General Fund	Debt Service Fund	Grant Fund	Court Security Fund	Tech- nology Fund	Total Governmental Funds
<i>REVENUES</i>						
Taxes						
Property	\$1,196,198	\$0	\$0	\$0	\$0	\$1,196,198
Sales	846,644					846,644
Franchise	160,049					160,049
Licenses and Permits	64,319					64,319
Intergovernmental	138,966					138,966
Charges for Services	856,653			3,368	4,724	864,745
Fines and Forfeitures	129,486					129,486
Interest	10,007	2,607	2,225			14,839
Miscellaneous	306,836					306,836
Total Revenues	<u>3,709,158</u>	<u>2,607</u>	<u>2,225</u>	<u>3,368</u>	<u>4,724</u>	<u>3,722,082</u>
<i>EXPENDITURES</i>						
Current:						
General Administration	857,863		6,000		8,787	872,650
Public Safety	3,232,819					3,232,819
Public Transportation	692,170					692,170
Culture and Recreation	727,802					727,802
Debt Service						
Principal Retirement	54,149	81,159				135,308
Interest and Fiscal Charges	10,119	11,129				21,248
Total Expenditures	<u>5,574,922</u>	<u>92,288</u>	<u>6,000</u>	<u>0</u>	<u>8,787</u>	<u>5,681,997</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,865,764)</u>	<u>(89,681)</u>	<u>(3,775)</u>	<u>3,368</u>	<u>(4,063)</u>	<u>(1,959,915)</u>
<i>OTHER FINANCING SOURCES (USES):</i>						
Capital Lease Proceeds	99,985					99,985
Operating Transfers In	1,649,350	89,242				1,738,592
Operating Transfers Out						0
Total Other Financing Sources (Uses)	<u>1,749,335</u>	<u>89,242</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,838,577</u>
Net Changes in Fund Balances	<u>(116,429)</u>	<u>(439)</u>	<u>(3,775)</u>	<u>3,368</u>	<u>(4,063)</u>	<u>(121,338)</u>
Fund Balances - Beginning	1,005,769	266,028	91,359	28,816	6,623	1,398,595
Fund Balances - Ending	<u>\$889,340</u>	<u>\$265,589</u>	<u>\$87,584</u>	<u>\$32,184</u>	<u>\$2,560</u>	<u>\$1,277,257</u>

The accompanying notes are an integral part of this statement.

CITY OF LULING, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 MARCH 31, 2018

Net Changes in Fund Balances - total governmental funds	(\$121,338)
Amounts reported for governmental activities in the statement of Net Position ("SNA") are different because:	
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 capital outlays exceeded depreciation in the current period.	(95,808)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.	(78,148)
GASB 68	
Contributions. This is the change in these amounts this year.	89,091
Difference in expected and actual experience. This is the change in these amounts this year.	5,241
Difference in projected and actual earnings. This is the change in these amounts this year.	14
Capital Lease Issuance Proceeds	(102,485)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	9,596
(Increase) decrease in Accrued Interest Payable from beginning of period to end of period.	209
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	135,308
(Increase) decrease in Net Pension Liability from beginning of period to end of period.	0
(Increase) decrease in Compensated absences from beginning of period to end of period.	(11,781)
Change in Net Position of governmental activities - statement of activities	<u><u>(\$170,101)</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LULING, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
<i>REVENUES</i>				
Taxes				
Property	\$1,039,175	\$1,168,175	\$1,196,198	\$28,023
Sales	900,000	850,000	846,644	(3,356)
Franchise	137,500	163,500	160,049	(3,451)
Licenses and Permits	49,800	59,000	64,319	5,319
Intergovernmental	10,600	147,125	138,966	(8,159)
Charges for Services	945,636	843,136	856,653	13,517
Fines and Forfeitures	178,500	129,500	129,486	(14)
Interest	7,000	9,500	10,007	507
Miscellaneous	251,557	318,757	306,836	(11,921)
Total Revenues	<u>3,519,768</u>	<u>3,688,693</u>	<u>3,709,158</u>	<u>20,465</u>
<i>EXPENDITURES</i>				
Current:				
General Administration				
Economic Development	69,767	72,742	70,500	2,242
General Administration	400,120	410,520	471,029	(60,509)
General Manager	281,350	260,350	250,804	9,546
Mapping	68,801	68,801	65,530	3,271
Public Safety				
Animal Control	126,045	110,895	111,745	(850)
Code Enforcement	104,543	104,543	94,859	9,684
E.M.S.	870,000	637,200	644,235	(7,035)
Emergency Management	11,784	11,784	9,774	2,010
Emergency Medical Services	0	229,900	253,209	(23,309)
Fire Department	515,372	486,322	481,869	4,453
Municipal Court	127,891	116,141	110,843	5,298
Police Department	1,511,926	1,544,876	1,526,285	18,591
Public Transportation				
Streets	606,986	677,026	692,170	(15,144)
Culture and Recreation				
Library	96,755	94,805	92,337	2,468
Parks	382,317	387,337	379,913	7,424
Swimming Pool	53,776	57,056	57,074	(18)
Zedler Mill	111,121	202,671	198,478	4,193
Debt Service				
Principal Retirement	19,852	54,149	54,149	0
Interest Retirement	9,070	10,123	10,119	4
Total Expenditures	<u>5,367,476</u>	<u>5,537,241</u>	<u>5,574,922</u>	<u>(37,681)</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(1,847,708)	(1,848,548)	(1,865,764)	(17,216)
<i>OTHER FINANCING SOURCES (USES):</i>				
Capital Lease Proceeds	0	100,000	99,985	(15)
Operating Transfers In	1,648,480	1,648,480	1,649,350	870
Total Other Financing Sources (Uses)	<u>1,648,480</u>	<u>1,748,480</u>	<u>1,749,335</u>	<u>855</u>
Net Changes in Fund Balances	(199,228)	(100,068)	(116,429)	(16,361)
Fund Balances - Beginning	1,005,769	1,005,769	1,005,769	
Fund Balances - Ending	<u>\$806,541</u>	<u>\$905,701</u>	<u>\$889,340</u>	<u>(\$16,361)</u>

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

CITY OF LULING, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2018

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$3,200	\$3,200	\$2,607	(\$593)
Total Revenues	3,200	3,200	2,607	(593)
EXPENDITURES				
Debt Service				
Principal Retirement	81,159	81,159	81,159	0
Interest Retirement	11,129	11,129	11,129	0
Total Expenditures	92,288	92,288	92,288	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	(89,088)	(89,088)	(89,681)	(593)
OTHER FINANCING SOURCES (USES):				
Transfers In	89,242	89,242	89,242	0
Transfers Out				0
Total Other Financing Sources (Uses)	89,242	89,242	89,242	0
Net Changes in Fund Balances	154	154	(439)	(593)
Fund Balances - Beginning	266,028	266,028	266,028	
Fund Balances - Ending	\$266,182	\$266,182	\$265,589	(\$593)

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

CITY OF LULING, TEXAS
 GRANT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE YEAR ENDED MARCH 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Intergovernmental	\$275,000	\$275,000	\$0	(\$275,000)
Interest	1,600	1,600	2,225	625
Total Revenues	<u>276,600</u>	<u>276,600</u>	<u>2,225</u>	<u>(274,375)</u>
EXPENDITURES				
Current:				
General Administration	344,200	344,200	6,000	338,200
Total Expenditures	<u>344,200</u>	<u>344,200</u>	<u>6,000</u>	<u>338,200</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	<u>(67,600)</u>	<u>(67,600)</u>	<u>(3,775)</u>	<u>63,825</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	64,400	64,400	0	(64,400)
Total Other Financing Sources (Uses)	<u>64,400</u>	<u>64,400</u>	<u>0</u>	<u>(64,400)</u>
Net Changes in Fund Balances	<u>(3,200)</u>	<u>(3,200)</u>	<u>(3,775)</u>	<u>(575)</u>
Fund Balances - Beginning	91,359	91,359	91,359	
Fund Balances - Ending	<u>\$88,159</u>	<u>\$88,159</u>	<u>\$87,584</u>	<u>(\$575)</u>

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

CITY OF LULING, TEXAS
 COURT SECURITY FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE YEAR ENDED MARCH 31, 2018

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for Services	\$4,000	\$4,000	\$3,368	(\$632)
Total Revenues	4,000	4,000	3,368	(632)
EXPENDITURES				
Current:				
Public Safety				
Court Security	2,000	2,000	0	2,000
Total Expenditures	2,000	2,000	0	2,000
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	2,000	2,000	3,368	1,368
OTHER FINANCING SOURCES (USES):				
Transfers In				0
Transfers Out				0
Total Other Financing Sources (Uses)	0	0	0	0
Net Changes in Fund Balances	2,000	2,000	3,368	1,368
Fund Balances - Beginning	28,816	28,816	28,816	
Fund Balances - Ending	\$30,816	\$30,816	\$32,184	\$1,368

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

CITY OF LULING, TEXAS
 TECHNOLOGY FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE YEAR ENDED MARCH 31, 2018

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for Services	\$5,400	\$5,400	\$4,724	(\$676)
Total Revenues	5,400	5,400	4,724	(676)
EXPENDITURES				
Current:				
General Administration				
Technology	9,500	9,500	8,787	713
Total Expenditures	9,500	9,500	8,787	713
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,100)	(4,100)	(4,063)	37
OTHER FINANCING SOURCES (USES):				
Transfers In				0
Transfers Out				0
Total Other Financing Sources (Uses)	0	0	0	0
Net Changes in Fund Balances	(4,100)	(4,100)	(4,063)	37
Fund Balances - Beginning	6,623	6,623	6,623	
Fund Balances - Ending	\$2,523	\$2,523	\$2,560	\$37

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

CITY OF LULING, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS-NET POSITION
MARCH 31, 2018

	BUSINESS TYPE ACTIVITIES		
	- ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$816,536	\$212,973	\$816,536
Accounts Receivables (net of allowance for uncollectibles)	1,626,306	1,307,319	1,626,306
Inventories	5,316	5,316	5,316
Prepays	14,338		14,338
Total Current Assets	<u>2,462,496</u>	<u>1,525,608</u>	<u>2,462,496</u>
Restricted Assets:			
Cash and Cash Equivalents			
Debt Service	6,237	6,155	6,237
Proceeds from Advanced Refunding	2,489,873	2,569,204	2,489,873
Construction	316,920	818,297	316,920
Total Restricted Assets	<u>2,813,030</u>	<u>3,393,656</u>	<u>2,813,030</u>
Capital Assets			
Land	135,284	135,284	135,284
Construction in Progress	330,435	42,660	330,435
Buildings and Improvements	216,155	199,155	216,155
Machinery and Equipment	1,236,979	1,185,480	1,236,979
Distribution System	24,017,366	23,866,745	24,017,366
Total Capital Assets	<u>25,936,219</u>	<u>25,429,324</u>	<u>25,936,219</u>
Less Accumulated Depreciation	(9,030,861)	(8,418,204)	(9,030,861)
Total Capital Assets (net of accumulated depreciation)	<u>16,905,358</u>	<u>17,011,120</u>	<u>16,905,358</u>
Total Noncurrent Assets	<u>16,905,358</u>	<u>17,011,120</u>	<u>16,905,358</u>
DEFERRED OUTFLOWS OF RESOURCES			
<i>GASB 68</i>			
Deferred Outflow of Resources-Contributions (after 12/31/15)		109,815	0
Deferred Outflow of Resources-Contributions (after 12/31/16)	170,984		170,984
Difference in projected and actual earnings on pension plan investments			0
Difference in expected and actual experience			0
Total Deferred Outflow of Resources	<u>170,984</u>	<u>109,815</u>	<u>170,984</u>
TOTAL ASSETS	<u><u>\$22,180,884</u></u>	<u><u>\$21,930,384</u></u>	<u><u>\$22,180,884</u></u>

(continued)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities			
Current Liabilities (Payable from Current Assets)			
Accounts Payable	\$663,902	\$376,732	\$663,902
Accrued Wages Payable			0
Accrued Interest Payable	19,631	21,510	19,631
Compensated Absences	37,108	34,361	37,108
Bonds - Current	558,919	548,919	558,919
Lease Purchases - Current			0
Total Current Liabilities	<u>1,279,560</u>	<u>981,522</u>	<u>1,279,560</u>
Current Liabilities (Payable from Restricted Assets)			
Consumer Meter Deposits	139,253	144,540	139,253
Total Current Liabilities			
Payable from Restricted Assets	<u>139,253</u>	<u>144,540</u>	<u>139,253</u>
Noncurrent Liabilities			
Bonds Payable	8,751,562	9,310,403	8,751,562
Net Pension Liability	447,960	447,960	447,960
Lease Purchases Payable			0
Total Noncurrent Liabilities	<u>9,199,522</u>	<u>9,758,363</u>	<u>9,199,522</u>
Total Liabilities	<u>10,618,335</u>	<u>10,884,425</u>	<u>10,618,335</u>
DEFERRED INFLOWS OF RESOURCES			
Bond Refunding Premium	2,261	2,449	2,261
<i>GASB 68</i>			
Difference in projected and actual earnings on pension plan investments	41,445	36,204	41,445
Difference in expected and actual experience	110	96	110
Total Deferred Inflow of Resources	<u>43,816</u>	<u>38,749</u>	<u>43,816</u>
Invested in Capital Assets, Net of Related Debt	7,029,411	7,087,709	7,029,411
Restricted - Electric Infrastructure - Non-Expendable	55,275	0	55,275
Restricted - Debt Service - Non-Expendable	6,237	6,155	6,237
Restricted - Proceeds from Advanced Refunding - Non-Expendable	2,489,873	2,569,204	2,489,873
Restricted - Construction Series 2012 - Non-Expendable	316,920	818,297	316,920
Unrestricted	1,792,001	635,660	1,792,001
Total Net Position	<u>\$11,689,717</u>	<u>\$11,117,025</u>	<u>\$11,689,717</u>

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

CITY OF LULING, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2018

	BUSINESS TYPE ACTIVITIES		
	- ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
OPERATING REVENUES:			
Charges for Services - Electricity	\$6,099,311	\$5,914,363	\$6,099,311
Charges for Services - Water	1,055,908	1,017,884	1,055,908
Charges for Services - Sewer	785,930	813,223	785,930
Charges for Services - Garbage	759,613	759,683	759,613
Miscellaneous	173,677	159,201	173,677
Total Operating Revenues	<u>8,874,439</u>	<u>8,664,354</u>	<u>8,874,439</u>
OPERATING EXPENSES:			
Personal Services	1,123,721	1,159,875	1,123,721
Supplies	18,457	20,457	18,457
Other Services and Charges	4,944,021	4,759,714	4,944,021
Depreciation	612,657	598,664	612,657
Total Operating Expenses	<u>6,698,856</u>	<u>6,538,710</u>	<u>6,698,856</u>
Operating Income (Loss)	<u>2,175,583</u>	<u>2,125,644</u>	<u>2,175,583</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest Income	35,450	16,072	35,450
Intergovernmental	249,161	0	249,161
Interest and Fiscal Charges	(263,924)	(291,619)	(263,924)
Total Non-Operating Revenues (Expenses)	<u>20,687</u>	<u>(275,547)</u>	<u>20,687</u>
Income Before Transfers	2,196,270	1,850,097	2,196,270
Lease Income	49,064	49,064	49,064
Miscellaneous	65,950	47,307	65,950
Transfers Out	<u>(1,738,592)</u>	<u>(1,560,560)</u>	<u>(1,738,592)</u>
Change in Net Position	572,692	385,908	572,692
Total Net Position - Beginning	11,117,025	10,731,117	11,117,025
Total Net Position - Ending	<u>\$11,689,717</u>	<u>\$11,117,025</u>	<u>\$11,689,717</u>

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

CITY OF LULING, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2018

	BUSINESS TYPE ACTIVITIES		
	- ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Cash Flows from Operating Activities			
Receipts from Customers and Users	8,550,165	8,621,973	8,550,165
Payments to Suppliers	(4,689,646)	(4,820,053)	(4,689,646)
Payments to Employees	(1,178,767)	(1,170,486)	(1,178,767)
Net Cash Provided (Used) By Operating Activities	<u>2,681,752</u>	<u>2,631,434</u>	<u>2,681,752</u>
Cash Flows from Non-Capital and Related Financing Activities			
Transfers Out	(1,738,592)	(1,560,560)	(1,738,592)
Intergovernmental	249,161	0	249,161
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	<u>(1,489,431)</u>	<u>(1,560,560)</u>	<u>(1,489,431)</u>
Cash Flows from Capital and Related Financing Activities			
Principal Payment on Revenue Bonds, Notes and Capital Leases	(548,841)	(700,941)	(548,841)
Proceeds from Advanced Refunding		2,650,000	0
Bond Premium from Refunding Bonds	(188)	(189)	(188)
Purchases of Capital Assets	(506,895)	(53,160)	(506,895)
Interest and Fiscal Charges	(263,924)	(291,619)	(263,924)
Lease Income	49,064	49,064	49,064
Miscellaneous	65,950	47,307	65,950
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(1,204,834)</u>	<u>1,700,462</u>	<u>(1,204,834)</u>
Cash Flows from Investing Activities			
Interest Received	35,450	16,072	35,450
Net Cash Provided (Used) by Investment Activities	<u>35,450</u>	<u>16,072</u>	<u>35,450</u>
Net Increase (Decrease) in Cash Equivalents	22,937	2,787,408	22,937
Cash and Cash Equivalents at Beginning of Year	3,606,629	819,221	3,606,629
Cash and Cash Equivalents at End of Year	<u>\$3,629,566</u>	<u>\$3,606,629</u>	<u>\$3,629,566</u>
Unrestricted Assets:			
Cash and Cash Equivalents	\$816,536	\$212,973	\$816,536
Restricted Assets:			
Cash and Cash Equivalents	2,813,030	3,393,656	2,813,030
Total	<u>\$3,629,566</u>	<u>\$3,606,629</u>	<u>\$3,629,566</u>

(continued)

(continued)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income (Loss)	\$2,175,583	\$2,125,644	\$2,175,583
Adjustments to Reconcile to Net Cash Flow			
Non-Cash Items Included in Net Income			
Depreciation	612,657	598,664	612,657
Changes in Current Items			
Decrease (Increase) in Accounts Receivable	(318,987)	(42,299)	(318,987)
Decrease (Increase) in Inventory	(14,338)	0	(14,338)
Increase (Decrease) in Accounts Payable	287,170	41,461	287,170
Increase (Decrease) in Bank Overdraft	0	(81,343)	0
Increase (Decrease) in Accrued Wages	0	(29,558)	0
Increase (Decrease) in Accrued Interest Payable	(1,879)	(7,892)	(1,879)
Increase (Decrease) in Compensated Absences	2,747	2,113	2,747
Increase (Decrease) in Consumer Meter Deposits	(5,287)	(82)	(5,287)
<i>GASB 68</i>			
Decrease (Increase) Deferred Outflow of Resources-Contributions	(61,169)	(84,722)	(61,169)
Decrease (Increase) Deferred Outflow-Diff. in projected and actual earnings	5,241	138,135	5,241
Decrease (Increase) Deferred Outflow-Diff. in expected and actual experience	14	4,475	14
Increase (Decrease) in Net pension Liability	0	(33,162)	0
Net Cash Provided (Used)			
By Operating Activities	<u>\$2,681,752</u>	<u>\$2,631,434</u>	<u>\$2,681,752</u>
Noncash Investing, Capital, and Financing Activities:			
Intergovernmental	<u>\$249,161</u>	<u>\$0</u>	<u>\$249,161</u>

Note: The above funds are all Enterprise Funds.

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

CITY OF LULING, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2018

ASSETS

Cash and Cash Equivalents	\$166,717
Receivables (net of allowance for uncollectibles)	<u>140</u>
Total Assets	<u><u>\$166,857</u></u>

LIABILITIES

Accounts Payable	\$0
Due to Others	<u>166,857</u>
Total Liabilities	<u><u>166,857</u></u>

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

CITY OF LULING, TEXAS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018

I. Summary of significant accounting policies

A. Reporting entity

The City of Luling, Texas, was incorporated by an election. The City operates under a charter, Manager-Council type of government and provides the following services: public safety (fire, ambulance, and law enforcement), public transportation (streets), health, culture, recreation, public facilities, legal, election functions, and general administrative services. The accounting policies of the City of Luling, Texas, (the City) conform to generally accepted accounting principles. The City also applies all relevant Government Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies.

B. Government-wide and fund financial statements

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, those transactions between governmental and business-type activities have not been eliminated. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. (The City’s deferred outflows of resources and deferred inflows of resources are noncurrent.) The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, charges for services, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The debt service fund accounts for monies used to pay the revenue bond debt.

The grant fund accounts for grant proceeds to be used for sewer system improvements.

The court security fund accounts for proceeds to be used for court security purposes.

The technology fund accounts for proceeds to be used for court technology purposes.

C. Proprietary fund financial statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and for the non-major funds aggregated. Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 Utility Fund (Water, Sewer, Garbage, and Electric) are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All 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 City's policy to use restricted resources first, then unrestricted resources as they are needed.

The government reports the following major proprietary funds:

The utility fund accounts for the activities of the government's electric, water, garbage, and sewer operations.

D. Fiduciary Fund Types

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. As such, fiduciary funds are not reported in the government-wide statements. The City's fiduciary funds include the following: The Trust and Agency fund is accounted for as an agency fund and is used to help defray the costs of the local parks. The Ainsworth Trust fund is accounted for as an agency fund and is used to help defray the costs of the local library.

E. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the government to invest in obligations of the U.S. Treasury. Investments for the government are reported at fair value. For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding trade accounts receivable at March 31, 2018, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding trade accounts receivable at March 31, 2018, the trade accounts receivable allowance in excess of 90 days is equal to 25 percent of outstanding trade accounts receivable at March 31, 2018, and the trade accounts receivable allowance in excess of 120 days is equal to 50 percent of outstanding trade accounts receivable at March 31, 2018. The property tax receivable allowance is equal to 10 percent of current outstanding property taxes at March 31, 2018, and 10 percent of delinquent outstanding property taxes at March 31, 2018. Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

The restricted assets at March 31, 2018 were 1) special projects - \$162,082, 2) debt service - \$265,589, 3) construction - \$87,584, 4) court security - \$32,184, 5) court technology - \$2,560 in the governmental activities and 2) construction - \$316,920 and debt service - \$2,496,110 in the business-type activities.

5. Capital assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City had a wastewater system improvement project for the year ended March 31, 2018.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<i>Assets</i>	<i>Years</i>
Buildings	50
Building improvements	20
Public Domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

6. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is generally no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government except that the City does not allow accumulated sick leave to be paid. All vacation pay is accrued when incurred in the government-wide, and proprietary fund financial statements.

7. Long-term obligations

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

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

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. They are amounts deferred under GASB 68.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government only has one item that qualifies for reporting in this category. They are amounts deferred under GASB 68.

9. Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

10. Fund Balances – Governmental Funds

As of March 31, 2018, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Unassigned — all other spendable amounts.

As of March 31, 2018, fund balances are composed of the following:

Fund Balances:	
Non-Spendable	
Prepaid Expenses	\$81,400
Restricted	
Construction	87,584
Debt Service	265,589
Public Safety	34,744
Unassigned	<u>807,940</u>
Total Fund Balance	<u><u>\$1,277,257</u></u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council or the finance committee has provided otherwise in its commitment or assignment actions.

In fiscal year 2012, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year end to be at least equal to 20 percent of the subsequent year's budgeted General Fund expenditures.

11. Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds.

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 assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains 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 \$2,054,068 difference are as follows:

General Obligation Bonds Payable	\$519,519
Capital lease purchases	81,635
Notes payable	121,833
Net Pension Liability	1,254,015
Compensated absences	75,879
Accrued Interest Payable	1,187
	<u>\$2,054,068</u>

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this \$4,852,802 difference are as follows:

Capital assets not being depreciated	\$821,871
Capital assets being depreciated	14,225,458
Depreciation expense	(10,194,527)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$4,852,802</u>

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets (continued)

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.*)" The details of this \$235,177 difference are as follows:

Property Taxes Receivable	\$251,699
Allowance for Doubtful Accounts	<u>(16,522)</u>
Net	<u><u>\$235,177</u></u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds." The details of this \$46,821 difference are as follows:

Fines and Fees Receivable	\$50,657
Allowance for Doubtful Accounts	<u>(3,836)</u>
Net	<u><u>\$46,821</u></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 a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this (\$95,808) difference are as follows:

Capital outlay - additions - not being depreciated	\$0
Capital outlay - additions - being depreciated	318,516
Capital outlay - deletions	(6,365)
Depreciation expense	(407,959)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>(\$95,808)</u></u>

III. Stewardship, compliance, and accountability

A. Budgetary information

The City Manager has been authorized by the council to prepare the budget. He is assisted by the Finance Director. The budget is adopted on budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council. The budget is adjusted by the City Council if desired. Then a final budget is prepared by the City Manager. A public hearing is held on the budget by the City Council. Department heads may appear. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. Amounts finally budgeted may not exceed the estimate of revenues and available cash. Appropriations lapse at year end.

When the budget is adopted by the City Council, the City Manager is responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the fund. Expenditures can exceed appropriations as long as they do not exceed available revenues and cash balances. The legal level of control (the level on which the City Council must approve over expenditures) is on an object class basis.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (IE. the level at which expenditures may not legally exceed appropriations) is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. There were no outstanding encumbrances at March 31, 2018.

B. Excess of expenditures over appropriations

For the year ended March 31, 2018, excess of expenditures over appropriations did not occur in any funds except for the general fund where actual expenditures of \$5,574,922 exceeded budgeted expenditures of \$5,537,241 by \$37,681.

C. Deficit fund equity

The City had no deficit fund balances as of March 31, 2018.

IV. Detailed notes on all funds

A. Deposits and investments

Legal and Contractual Provisions Governing Deposits and Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

Custodial credit risk – deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government has a deposit policy for custodial credit risk. As of March 31, 2018, the government's bank balance of \$7,429 with the International Bank of Commerce was not exposed to custodial credit risk because it was covered by the FDIC. The \$2,395,548 deposited with Citizens State Bank was not exposed to custodial credit risk because it was collateralized with securities held by the pledging financial institution's trust department or agent, in the government's name. The fair market value of the securities pledged is \$2,372,292 and the FDIC coverage is \$250,000. The general ledger amount of the above cash is \$2,089,425.

The City also had monies in BOKF which are derived from the sale of 2016 refunding bonds. The amount at March 31, 2018 is \$2,489,873. The BOKF is the paying agent for refunding the 2009 bond issue which are scheduled to be fully refunded on August 15, 2018.

Interest rate risk: In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than twelve months.

Credit risk: State law limits investments in commercial paper and corporate bonds to the top two rating issued by nationally recognized statistical rating organizations (NRSROs). It is the government's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of March 31, 2018 the local investment pools LOGIC (100% of portfolio) was rated AAA by Standard and Poor's.

Concentration of credit risk: The City places no limit on the amount the City may invest in any one issuer. 100 percent of the City's investments are in LOGIC.

Custodial credit risk – investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of March 31, 2018, the government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>	<u>Weighted Average</u>
LOGIC	\$343,596	Less than 1 year	Less than 1 year

The City participates in one Local Government Investment Pool: LOGIC. The City invests in LOGIC to provide its liquidity needs. All are local government investment pool established in conformity with the Inter-local Cooperation Act Chapter 791 of the Texas Government Code and the Public Investment Act Chapter 2256 of the Code. LOGIC is 2 (a) 7 like funds meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are adjusted daily and the fund seeks to maintain a constant net asset value of \$1.00, although this cannot be guaranteed. The City considers the holdings in these funds 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 short of a significant change in value. The LOGIC funds are within the Governmental Activities.

B. Receivables

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

	<u>General</u>	<u>Grant Fund</u>	<u>Utility</u>	<u>Total</u>
<u>Receivables</u>				
Taxes	\$251,699			\$251,699
Accounts	643,042		1,692,145	2,335,187
Sales Tax	91,073			91,073
Intergovernmental		44,797	249,161	293,958
Fines	50,657			50,657
Other	135,087			135,087
Paving	47,782			47,782
Gross receivables	1,219,340	44,797	1,941,306	3,205,443
Less: Allowance for uncollectibles	711,182		315,000	1,026,182
Net total receivables	\$508,158	\$44,797	\$1,626,306	\$2,179,261

C. Capital assets

Capital asset activity for the year ended March 31, 2018 was as follows:

Governmental Activities:	Beginning			Ending
Capital assets not being depreciated:	Balances	Increases	Decreases	Balances
Land	\$806,236			\$806,236
Construction in Progress	15,635			15,635
Total capital assets not being depreciated:	821,871	0	0	821,871

Capital assets being depreciated:				
Building and Improvements	3,723,042	17,250		3,740,292
Machinery, Equipment and Vehicles	4,505,238	301,266	282,411	4,524,093
Infrastructure	5,961,073			5,961,073
Total capital assets being depreciated:	14,189,353	318,516	282,411	14,225,458

Less: Accumulated Depreciation for:				
Building and Improvements	1,639,238	62,690		1,701,928
Machinery, Equipment and Vehicles	4,148,568	300,850	276,046	4,173,372
Infrastructure	4,274,808	44,419		4,319,227
Total Accumulated Depreciation	10,062,614	407,959	276,046	10,194,527
Total Capital Assets Depreciated, Net	4,126,739	(89,443)	6,365	4,030,931
Governmental Activities capital assets, Net	\$4,948,610	(\$89,443)	\$6,365	\$4,852,802

Business-Type Activities:	Beginning			Ending
Capital assets not being depreciated:	Balances	Increases	Decreases	Balances
Land	\$135,284			\$135,284
Construction in Progress	42,660	287,775		330,435
Total capital assets not being depreciated:	177,944	287,775	0	465,719

Capital assets being depreciated:				
Building and Improvements	199,155	17,000		216,155
Machinery, Equipment and Vehicles	1,185,480	51,499		1,236,979
Distribution Systems	23,866,745	150,621		24,017,366
Total capital assets being depreciated:	25,251,380	219,120	0	25,470,500

Less: Accumulated Depreciation for:				
Building and Improvements	60,840	5,583		66,423
Machinery, Equipment and Vehicles	1,049,145	126,727		1,175,872
Distribution Systems	7,308,219	480,347		7,788,566
Total Accumulated Depreciation	8,418,204	612,657	0	9,030,861
Total Capital Assets Depreciated, Net	16,833,176	(393,537)	0	16,439,639
Business-Type Activities capital assets, Net	\$17,011,120	(\$105,762)	\$0	\$16,905,358

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

Governmental activities	
General Administration	\$3,228
Public Safety	257,055
Public Transportation	50,562
Health and Welfare	5,443
Culture and Recreation	77,677
Public Facilities	13,994
Total depreciation expense - governmental activities	<u>\$407,959</u>
Business-type activities	
Utility	<u>\$612,657</u>
Total depreciation expense - Business-type activities	<u>\$612,657</u>

Construction commitments:

The City had a wastewater system improvement project for the year ended March 31, 2018.

D. Interfund receivables, payables, and transfers

The City had no due to/from at March 31, 2018.

The interfund transfers for the year ended March 31, 2018 are as follows:

PRIMARY GOVERNMENT

<u>ACCOUNT</u>	<u>AMOUNT</u>	<u>REASON</u>
UTILITY FUND TO GENERAL FUND	\$1,740,000	ADMINISTRATION - ANNUAL TRANSFER
DEBT SERVICE FUND TO UTILITY FUND	<u>(1,408)</u>	ADMINISTRATION- NON-RECURRING
	<u>\$1,738,592</u>	

E. Operating Leases

The government leases equipment under noncancellable operating leases. Total costs for such leases were \$17,092 for the year ended March 31, 2018. The future minimum lease payments for these leases are as follows:

Year Ending Mar. 31	<u>Amount</u>
2019	\$ 3,394
2020	0
2021	0
2022	<u>0</u>
Total	<u>\$ 3,394</u>

Rent expenditures were \$0 for the year ended March 31, 2018. Sublease rental income was \$0 for the year ended March 31, 2018.

F. Long-term debt

Changes in long-term liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>	<u>Due after one year</u>
<u>Governmental activities:</u>						
General Obligation Bonds	\$600,678		\$81,159	\$519,519	\$81,081	\$438,438
Capital Leases	24,973	102,485	45,823	81,635	45,207	36,428
Notes Payable	130,159		8,326	121,833	8,905	112,928
Net Pension Payable	1,254,015			1,254,015		1,254,015
Compensated Absences	64,098	75,879	64,098	75,879	75,879	0
	<u>2,073,923</u>	<u>178,364</u>	<u>199,406</u>	<u>2,052,881</u>	<u>211,072</u>	<u>1,841,809</u>
<u>Business-type activities:</u>						
Revenue Bonds	9,859,322		548,841	9,310,481	558,919	8,751,562
	<u>9,859,322</u>	<u>0</u>	<u>548,841</u>	<u>9,310,481</u>	<u>558,919</u>	<u>8,751,562</u>
Capital Leases	0			0		0
Net Pension Payable	447,960			447,960		447,960
Compensated Absences	34,361	37,108	34,361	37,108	37,108	0
	<u>10,341,643</u>	<u>37,108</u>	<u>583,202</u>	<u>9,795,549</u>	<u>596,027</u>	<u>9,199,522</u>
Grand Total	<u>\$12,415,566</u>	<u>\$215,472</u>	<u>\$782,608</u>	<u>\$11,848,430</u>	<u>\$807,099</u>	<u>\$11,041,331</u>

Capital Leases

The capital leases consist of the following:

Two Heart Monitors capitalized into the governmental activities at \$64,631. The debt is serviced by the General Fund. The accumulated depreciation of this asset at March 31, 2018 is \$51,705. The balance of the lease at March 31, 2018 is \$13,447.

Police Video Cameras capitalized into the governmental activities at \$102,485. The debt is serviced by the General Fund. The accumulated depreciation of this asset at March 31, 2018 is \$20,497. The balance of the lease at March 31, 2018 is \$68,188.

The security pledged for the above capital lease is the equipment financed.

The following for the above debt is a schedule of the future minimum lease payments and the present value of net minimum lease payments at March 31, 2018.

YEAR	Primary Government		Total
	Governmental Activities		
		POLICE HEART MONITORS	
		VIDEO CAMERAS	
2019	\$12,062	\$35,356	\$47,418
2020	2,011	35,356	37,367
TOTAL MINIMUM LEASE PAYMENTS	<u>14,073</u>	<u>70,712</u>	<u>84,785</u>
LESS: AMOUNT REPRESENTING INTEREST	626	2,524	3,150
PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS	<u>\$13,447</u>	<u>\$68,188</u>	<u>\$81,635</u>

Notes Payable

The government procured notes payable to the Citizens State Bank in San Antonio, Texas in the amount of \$200,000 for the construction of an EMS Building. The note is to be secured by the building. The note is to be paid in 248 monthly installments with the first nine being interest only and the next 239 in the amount of \$1,405.00 and the final payment in the amount of all principal and interest unpaid at the time. The payments begin on April 1, 2011. This note is a draw note. The total amount drawn on March 31, 2018 is \$195,000. The balance of the lease at March 31, 2018 is \$121,833.

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
Governmental activities	6.0	\$121,833

The payments on the draw note vary from year to year so an annual debt service requirement to maturity schedule is not included. This debt is to be serviced by the general fund.

The security pledged for the above notes is the respective land and building financed.

Revenue Bonds

The government issues revenue bonds to provide funds for the acquisition and construction of major capital facilities. Revenue bonds have been issued for business-type activities. The original amount of Revenue bonds issued in prior years was \$13,105,000.

Revenue bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
Governmental activities	4.55	\$ 519,519
Business-type activities	2.00% to 4.00%	\$ 2,960,000 (to be refunded on August 15, 2018)
Business-type activities	2.00% to 2.375%	\$ 870,000
Business-type activities	4.55	\$ 2,520,000
Business-type activities	4.55	\$ 345,481
Business-type activities	1.74	\$ 2,615,000 (refunding bond)

The security for the above governmental bonds is ad valorem taxes of the City. The security for the above revenue bonds is both the ad valorem taxes and the net utility revenues of the City.

Annual debt service requirements to maturity for the Revenue bonds are as follows:

Year Ending	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
March 31,				
2019	\$81,081	\$9,005	\$558,919	\$250,555
2020	84,084	7,452	565,916	234,174
2021	87,087	5,843	852,913	214,359
2022	87,087	4,206	872,913	190,923
2023	90,090	2,541	884,910	166,292
2024-2028	90,168	847	4,584,832	449,008
2029-2033	0	0	990,000	59,476
TOTALS	<u>\$519,597</u>	<u>\$29,894</u>	<u>\$9,310,403</u>	<u>\$1,564,787</u>

The debt service fund and the utility fund are used to service the bonds.

The general fund and the utility fund are used to service the compensated absences. The estimated amount due in the 2018-19 year is \$112,987.

The government-wide statement of activities includes \$807,099 as "noncurrent liabilities, due within one year".

The total interest capitalized in the 2017-2018 year was \$-0-.

The City sold 2016 refunding bonds of \$2,650,000 to refund the Series 2009 bonds. The refunding was an advanced refunding and the monies are deposited with the refunding agent BOKF. The bonds were totally refunded on August 15, 2017. The amount being held at March 31, 2018 is \$2,489,873. The estimated total savings were estimated at \$190,368.

V. Other information

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Claim liabilities are estimated considering the effects of inflation, recent claim settlement trends (including frequency and amounts of payouts) and other economic and social factors (including the effects of specific, incremental claim adjustment expense, salvage and subrogation).

	Year ended <u>03/31/18</u>	Year ended <u>03/31/17</u>
Unpaid claims, beginning of fiscal year	\$ -0-	\$ -0-
Incurred claims (including IBNRs)		
Claim payments	<u>-0-</u>	<u>-0-</u>
Unpaid claims, end of fiscal year	<u>\$ -0-</u>	<u>\$ -0-</u>

General Liability Insurance

The City is insured for general, police officers and automobile liability. Expenditures for self-insured liabilities are accounted for in the General Fund, which will pay any liabilities incurred.

The City has joined together with other governments in the Texas Municipal League Intergovernmental Risk Pool (TML). The City pays an annual premium to TML for auto vehicle insurance coverage. The agreement with TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 to \$1,000,000 for each insurance event. The City anticipates no contingent losses.

TML has published its own financial report that can be obtained from the Texas Municipal League Intergovernmental Risk Pool, Austin, Texas.

The City carries commercial fidelity bonds for elected officials and for management.

Property and Casualty Insurance

Property, casualty, mobile equipment, boiler and machinery insurance is provided by TML.

Workers' Compensation Insurance

The City insures against workers' compensation claims through TML.

Group Health and Life Insurance

The City maintains a group health insurance plan for active employees and their eligible dependents. Costs are recorded in the fund from which the employees' compensation is paid.

Unemployment Compensation Insurance

The City self-insures for unemployment compensation claims through an agreement with the Texas Workforce Commission (TWC). Under the agreement, TWC administers all claims and is reimbursed by the City for claims incurred plus administrative charges.

B. Related party transaction

There were no related party transactions requiring disclosure.

C. Subsequent events

1. A New grant was accepted to stabilize and reclaim the banks of the River; \$4.5 million work starts in January 2019.
2. 2% increase on the Property Tax Base levied in October 2018.
3. Purchase of a generator at the City's water treatment plant operated by GBRA. The \$485,000 cost will be financed over a 3 year period with \$64,000 annual installments.
4. GBRA's operating budget for the water treatment plant will increase by approximately 12% due to the purchase of the generator and will drive the cost of treated water from \$1.50 to \$1.68 per 1,000 gallons.

D. Contingent liabilities

Amounts received or receivable from grant 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 that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial. The City is not a defendant in any lawsuit at March 31, 2018.

E. Defined Benefit Pension Plans

EXECUTIVE SUMMARY
as of December 31, 2016

Actuarial Valuation and Measurement Date, December 31,	2015	2016
Membership		
Number of		
- Inactive employees or beneficiaries currently receiving benefits	36	36
- Inactive employees entitled to but not yet receiving benefits	40	48
- Active employees	<u>81</u>	<u>77</u>
- Total	157	161
 Covered Payroll	 \$ 3,003,048	 \$ 3,020,985
Net Pension Liability		
Total Pension Liability	\$ 8,976,908	\$ 9,475,176
Plan Fiduciary Net Position	<u>7,148,938</u>	<u>7,773,201</u>
Net Pension Liability	\$ 1,827,970	\$ 1,701,975
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	 79.64%	 82.04%
 Net Pension Liability as a Percentage of Covered Payroll	 60.87%	 56.34%
Development of the Single Discount Rate		
Single Discount Rate	6.75%	6.75%
Long-Term Expected Rate of Return	6.75%	6.75%
Long-Term Municipal Bond Rate*	3.57%	3.78%
 Last year ending December 31 in the 100 year projection period for which projected benefit payments are fully funded	 N/A	 N/A

*Based on the Bond Buyer 20 Bond Index of general obligation bonds as of December 31, 2015 and December 29, 2016 respectively as these are the weekly rate closest to but not later than the Measurement Dates.

SCHEDULE OF PENSION EXPENSE

1. Total Service Cost	\$	329,287
2. Interest on the Total Pension Liability		608,242
3. Changes in Current Period Benefits Including Substantively Automatic Status		0
4. Employee Contributions (Reduction of Expense)		(151,049)
5. Projected Earnings on Plan Investments (Reduction of Expense)		(482,553)
6. Administrative Expense		5,456
7. Other Changes in Fiduciary Net Position		294
8. Recognition of Current Year Outflow (Inflow) of Resources-Liabilities		(40,576)
9. Recognition of Current Year Outflow (Inflow) of Resources-Assets		(92)
10. Amortization of Prior Year Outflows (Inflows) of Resources-Liabilities		5,621
11. Amortization of Prior Year Outflows (Inflows) of Resources-Assets		<u>96,818</u>
12. Total Pension Expense (Income)	\$	371,448

SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE

A.	Recognition Period (or amortization years)	Total (Inflow) or Outflow of Resources	2016 Recognized in current	Deferred (Inflow)/Outflow in future expense
<u>Due to Liabilities:</u>				
Difference in expected and actual experience [actuarial (gains) or losses]	4.3900	\$ (178,129)	\$ (40,576)	\$ (137,553)
Change in assumptions [actuarial (gains) or losses]	4.3900	\$ 0	\$ 0	\$ 0
			<u>\$ (40,576)</u>	\$ (137,553)
<u>Due to Assets:</u>				
Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses]	5.0000	\$ (458)	\$ (92)	\$ (366)
			<u>\$ (92)</u>	\$ (366)
Total:				<u>\$ (137,919)</u>

B. Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future pension expense as follows:

	<u>Net deferred outflows (inflows) of resources</u>
2017	\$ 61,771
2018	61,546
2019	56,152
2020	(15,915)
2021	0
Thereafter	
Total	\$ 163,554

Note to City:

GASB 68 requires 10 fiscal years of data to be provided in the Schedule of Contributions; the City will build this report over the next 10-year period. **The data in this schedule is based on the City's fiscal year-end**, not the valuation/measurement date as provided in other schedules of this report.

The Actuarially Determined Contribution (ADC) dollar amount can be calculated by multiplying the City's Full Retirement Rate (**excludes portion of rate for Supplemental Death Benefits Fund**) by the applicable payroll amount (for payroll, cities can use "gross earnings" as noted on line 1 of their TMRS-3 "Summary of Monthly Payroll Report"). The applicable months for the City's fiscal year are summed to determine the total ADC. Actual contribution amounts (employer-portion) remitted to TMRS will equal the "contributions in relation to ADC", with the deficiency/(excess) result then calculated. Covered payroll is the sum of the "gross earnings" for the applicable months of the TMRS-3 reports.

For additional detailed information, please reference the TMRS "GASB-Employer Reporting Guide."

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$3,026,349	\$1,701,975	\$619,221

SUMMARY OF ACTUARIAL ASSUMPTIONS

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. These assumptions apply to both the Pension Trust and the Supplemental Death Benefits Fund as applicable.

I. Economic Assumptions

A. General Inflation - General Inflation is assumed to be 2.50% per year.

B. Discount/Crediting Rates

1. System-wide Investment Return Assumption: 6.75% per year, compounded annually, composed of an assumed 2.50% inflation rate and a 4.25% net real rate of return. This rate represents the assumed return, net of all investment and administrative expenses. This is the discount rate used to value the liabilities of the individual employers.
2. For the Supplemental Death Benefits Fund, the rate is 4.25% per year, compounded annually, and derived as a blend of 5.00% for the portion of the benefits financed by advance funding contributions and a short-term interest rate for the portion of the benefits financed by current contributions.
3. Assumed discount/crediting rate for Supplemental Disability Benefits Fund and individual employee accounts: an annual rate of 5.00% for (1) accumulating prior service credit and updated service credit after the valuation date, (2) accumulating the employee current service balances, (3) determining the amount of the monthly benefit at future dates of retirement or disability, and (4) calculating the actuarial liability of the system-wide Supplemental Disability Benefits Fund.

C. Overall Payroll Growth - 3.00% per year, which is used to calculate the contribution rates for the retirement plan of each participating city as a level percentage of payroll. This represents the expected increase in total payroll. This increase rate is solely due to the effect of wage inflation on salaries, with no allowance for future membership growth. However, for cities with a decrease in the number of contributing members from 2005 to 2014, the payroll growth is decreased by half the annual percentage decrease in the count capped at a 1.0% decrease per year and rounded down to the nearest 0.1%.

D. Individual Salary Increases -

Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by the following graduated service-based scale.

Years of Service	<u>Rate (%)</u>
	10.50%
2	7.50%
3	7.00%
4	6.50%
5	6.00%
6	5.50%
7	5.25%
8-10	4.75%
11	4.50%
12 -13	4.25%
14 -16	4.00%
17 -24	3.75%
25 +	3.50%

E. Annuity Increase - The Consumer Price Index (CPI) is assumed to be 2.50% per year prospectively. For the City of Luling annual annuity increases of 1.86% are assumed when calculating the TPL.

II. Demographic Assumptions

A. Termination Rates

1. For the first 10 years of service, the base table rates vary by gender, entry age, and length of service. For City of Luling the base table is then multiplied by a factor of 115.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire - 63%, 2) Police - 88%, or 3) Other - 108%. A sample of the base rates follows:

Males

Age	Service									
	0	1	2	3	4	5	6	7	8	9
20	0.2920	0.2623	0.2186	0.1932	0.1850	0.1673	0.1529	0.1243	0.1022	0.0816
25	0.2653	0.2269	0.1812	0.1554	0.1429	0.1267	0.1148	0.1006	0.0926	0.0757
30	0.2451	0.2052	0.1610	0.1322	0.1079	0.0998	0.0896	0.0774	0.0744	0.0621
35	0.2505	0.2070	0.1577	0.1265	0.1050	0.0994	0.0848	0.0719	0.0621	0.0567
40	0.2467	0.2060	0.1561	0.1213	0.1046	0.0943	0.0805	0.0710	0.0601	0.0577
45	0.2268	0.1934	0.1556	0.1220	0.1053	0.0926	0.0813	0.0711	0.0605	0.0575
50	0.2078	0.1731	0.1412	0.1149	0.1016	0.0887	0.0807	0.0716	0.0604	0.0578
55	0.2003	0.1668	0.1265	0.1074	0.0861	0.0864	0.0771	0.0682	0.0609	0.0560
60	0.1999	0.1542	0.1231	0.1060	0.0790	0.0868	0.0753	0.0683	0.0571	0.0549
65	0.2000	0.1463	0.1238	0.1063	0.0803	0.0867	0.0757	0.0700	0.0547	0.0551
70	0.2000	0.1477	0.1237	0.1063	0.0802	0.0867	0.0756	0.0697	0.0551	0.0551

Females

Age	Service									
	0	1	2	3	4	5	6	7	8	9
20	0.3030	0.2790	0.2221	0.2098	0.1997	0.2021	0.1536	0.1539	0.1564	0.1574
25	0.2782	0.2409	0.2067	0.1962	0.1710	0.1663	0.1369	0.1352	0.1186	0.1125
30	0.2574	0.2188	0.1949	0.1762	0.1347	0.1348	0.1276	0.1126	0.0973	0.0804
35	0.2424	0.2118	0.1805	0.1438	0.1273	0.1238	0.1112	0.1085	0.1000	0.0769
40	0.2244	0.1993	0.1614	0.1342	0.1295	0.1097	0.1023	0.0924	0.0834	0.0733
45	0.2191	0.1853	0.1427	0.1337	0.1054	0.1017	0.0894	0.0784	0.0705	0.0725
50	0.2201	0.1793	0.1347	0.1229	0.0886	0.0881	0.0823	0.0723	0.0675	0.0617
55	0.2200	0.1738	0.1350	0.1199	0.0834	0.0806	0.0713	0.0705	0.0685	0.0551
60	0.2200	0.1523	0.1350	0.1172	0.0798	0.0843	0.0646	0.0639	0.0429	0.0379
65	0.2200	0.1431	0.1350	0.1150	0.0800	0.0857	0.0667	0.0593	0.0276	0.0280
70	0.2200	0.1447	0.1350	0.1154	0.0800	0.0854	0.0664	0.0601	0.0303	0.0298

2. After 10 years of service, base termination rates vary by gender and by the number of years remaining until first retirement eligibility. For City of Luling the base table is then multiplied by a factor of 115.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire - 52%, 2) Police - 79%, or 3) Other - 115%. A sample of the base rates follows:

Years from Retirement	Male	Female
1	1.72%	2.20%
2	2.29%	2.97%
3	2.71%	3.54%
4	3.06%	4.01%
5	3.35%	4.41%
6	3.61%	4.77%
7	3.85%	5.10%
8	4.07%	5.40%
9	4.28%	5.68%
10	4.47%	5.94%
11	4.65%	6.19%
12	4.82%	6.43%
13	4.98%	6.66%
14	5.14%	6.87%
15	5.29%	7.08%

Termination rates end at first eligibility for retirement

- B. Forfeiture Rates (Withdrawal of Member Deposits from TMRS) for vested members vary by age and employer match, and they are expressed as a percentage of the termination rates shown in (A). The withdrawal rates for cities with a 2-to-1 match are shown below. 4% is added to the rates for 1-1½-to-1 cities, and 8% is added for 1-to-1 cities.

Age	Percent of Terminating Employees Choosing to Take a Refund
25	41.2%
30	41.2%
35	41.2%
40	38.0%
45	32.6%
50	27.1%
55	21.7%

Forfeiture rates end at first eligibility for retirement.

C. Service Retirees and Beneficiary Mortality Rates

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

D. Disabled Annuitant Mortality Rates

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male 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 will be 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.

E. Pre-Retirement Mortality

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 54.5% and female rates multiplied by 51.5%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

F. Annuity Purchase Rates

For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027 the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

G. Disability Rates

Age	Males & Females
20	0.000004
25	0.000025
30	0.000099
35	0.000259
40	0.000494
45	0.000804
50	0.001188
55	0.001647
60	0.002180
65	0.002787

H. Service Retirement Rates, applied to both Active and Inactive Members

The base table rates vary by gender, entry age group, and age. For members under age 62, these base rates are then multiplied by 2 factors based on 1) employee contribution rate and employer match and 2) if the city has a recurring COLA.

Age	Males Entry Age Groups			Females Entry Age Groups		
	Ages 32 & Under	Ages 33-47	Ages 48 & Over	Ages 32 & Under	Ages 33-47	Ages 48 & Over
40-44	0.06	-	-	0.06	-	-
45-49	0.06	-	-	0.06	-	-
50-52	0.08	-	-	0.08	-	-
53	0.08	0.10	-	0.08	0.10	-
54	0.08	0.10	-	0.11	0.10	-
55-59	0.14	0.10	-	0.11	0.10	-
60	0.20	0.15	0.10	0.14	0.15	0.10
61	0.25	0.30	0.20	0.28	0.26	0.20
62	0.32	0.25	0.12	0.28	0.17	0.12
63	0.32	0.23	0.12	0.28	0.17	0.12
64	0.32	0.35	0.20	0.28	0.22	0.20
65	0.32	0.32	0.20	0.28	0.27	0.20
66-69	0.22	0.22	0.17	0.22	0.22	0.17
70-74	0.20	0.22	0.25	0.22	0.22	0.25
75 and over	1.00	1.00	1.00	1.00	1.00	1.00

Note: For cities without a 20-year/any age retirement provision, the rates for entry ages 32 and under are loaded by 20% for ages below 60.

Plan Design Factors Applied to Base Retirement Rates

Employer Match	Employee Contribution Rate		
	5%	6%	7%
1 - 1	0.75	0.80	0.84
1.5 - 1	0.81	0.86	0.92
2-1	0.86	0.93	1.00

Recurring COLA: 100%

No Recurring COLA: 90%

III. Methods and Assumptions

- A. Valuation of Assets - The actuarial value of assets is based on the market value of assets with a ten-year phase-in of actual investment return in excess of (less than) expected investment income. Offsetting unrecognized gains and losses are immediately recognized, with the shortest remaining bases recognized first and the net remaining bases continue to be recognized on their original timeframe. The actuarial value of assets is further adjusted by 33% of any difference between the initial value and a 15% corridor around the market value of assets, if necessary. For the purpose of determining the UAAL and annual required contribution associated with the Supplemental Death Trust, assets are valued at the Fund Value.
- B. Actuarial Cost Method: The actuarial cost method being used is known as the Entry Age Normal Actuarial Cost Method. The Entry Age Normal Actuarial Cost Method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the current city. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated. The unfunded actuarial accrued liability is paid off in accordance with a specified amortization procedure outlined in C below.

- C. Amortization Policy: For "underfunded" cities with twenty or more employees, the amortization as of the valuation date is a level percentage of payroll over a closed period using the process of "laddering". Bases that existed prior to this valuation continue to be amortized on their original schedule. Beginning January 1, 2016, all new experience losses are amortized over individual periods of not more than 25 years. Previously, some cities amortized their losses over a 30 year period. New gains (including lump sum contributions) are offset against and amortized over the same period as the current largest outstanding loss base for the specific City which in turn decreases contribution rate volatility.

Once a City reaches an "overfunded" status, all prior non-ad hoc bases are erased and the surplus for overfunded cities is amortized over a 25 year open period.

Ad hoc benefit enhancements are amortized over individual periods using a level dollar policy. The period will be based on the minimum of 15 years or the current life expectancy of the covered group.

For the December 31, 2013 actuarial valuation, there was a one-time change in the amortization policy for underfunded cities implemented in conjunction with the changes to the assumptions and cost method to minimize rate volatility associated with these changes. An initial ARC was developed using the methodology described above. For cities with a decrease in the rate compared to the rate calculated prior to changes, the amortization period for all non-ad hoc bases was shortened enough to keep the rates stable (if possible). Cities with an increase of more than 0.50% were allowed to extend the amortization periods for non-ad hoc bases up to 30 years to keep the full contribution rate from increasing. For cities with an increase of 0.50% or less, the amortization periods for all non-ad hoc bases could be extended to 25 years to keep the rate from increasing. The amortization period calculated in the prior steps was then rounded up to the nearest integer to calculate the final full contribution rate.

For the purpose of determining the annual required contribution associated with the Supplemental Death Trust, the amortization of the UAAL is done using a 25 year open period.

- D. Small City Methodology - For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, 100% for employers with 11 to 15 members, and 115% for employers with less than 100 members.

There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%).

For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than the 20 member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use $(25 - (20 - 8)) = 13$ year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be $25 - (20 - 1) = 6$ years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years.

- E. Supplemental Death Benefit - The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees. Due the significant reserve in the Supplemental Death Trust, the SDB rate for retiree coverage is currently only one-third of the total term cost.

IV. *Other Assumptions*

1. Valuation payroll (used for determining the amortization contribution rate): An exponential average of the actual salaries paid during the prior fiscal years, with 33% weight given to the most recent year and 67% weight given to the expected payroll for the previous fiscal year, moved forward with one year's payroll growth rate and adjusted for changes in population.
2. Individual salaries used to project benefits: For members with more than three years of service, actual salaries from the past three fiscal years are used to determine the USC final average salary as of the valuation date. For future salaries, this three-year average is projected forward with two years of salary scale to create the salary for the year following the valuation. This value is then projected with normal salary scales.
3. Timing of benefit payments: Benefit payments are assumed to be made in the middle of the month. Although TMRS benefits are paid at the end of the month, eligibility for that payment is determined at the beginning of the month. A middle of month payment approximates the impact of the combination of eligibility determination and actual payment timing.
4. Percent married: 100% of the employees are assumed to be married.
5. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses.

6. Optional Forms: Healthy members are assumed to choose a life only benefit when they retire. Disabled members are assumed to select a 50% Joint and Survivor option when they retire.
7. Percent electing annuity on death (when eligible): For vested members not eligible for retirement, 75% of the spouses of male members and 70% of the spouses of female members are assumed to commence an immediate benefit in lieu of a deferred annuity or a refund. Those not electing an immediate benefit are assumed to take a refund. All of the spouses of married participants who die after becoming eligible for a retirement benefit are assumed to elect an annuity that commences immediately.
8. Partial Lump Sum Utilization: It is assumed that each member at retirement will withdraw 40% of their eligible account balance.
9. Inactive Population: All non-vested members of a city are assumed to take an immediate refund if they are not contributing members in another city. Vested members not contributing in another city are assumed to take a deferred retirement benefit, except for those who have terminated in the past 12 months for whom one year of forfeiture probability is assumed. The forfeiture rates for inactive members of a city who are contributing members in another city are equal to the probability of termination multiplied by the forfeiture rates shown in II(A) and II(B) respectively. These rates are applied each year until retirement eligibility. Once a member is retirement eligible, they are assumed to commence benefits based on the service retirement rates shown in II(H).
10. There will be no recoveries once disabled.
11. No surviving spouse will remarry and there will be no children's benefit.
12. Decrement timing: Decrements of all types are assumed to occur mid-year.
13. Eligibility testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
14. Decrement relativity: Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
15. Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.
16. Benefit Service: All members are assumed to accrue 1 year of eligibility service each year.

17. The decrement rates for service related decrements are based on total TMRS eligibility service.

V. *Participant Data*

Participant data was supplied in electronic text files. There were separate files for (i) active and inactive members, and (ii) members and beneficiaries receiving benefits.

The data for active members included birthdate, gender, service with the current city and total vesting service, salary, employee contribution account balances, as well as the data used in the next calculation of the Updated Service Credit (USC). For retired members and beneficiaries, the data included date of birth, gender, spouse's date of birth (where applicable), amount of monthly benefit, date of retirement, form of payment code, and aggregate increase in the CPI that will be used in the next calculation of the cost of living adjustment.

To the extent possible we have made use of all available data fields in the calculation of the liabilities stated in this report. Actual CPI is used to model the wear-away effect or "catch-up" when a city changes its COLA provisions. Adjustments are made for members who have service both in a city with "20 and out" retirement eligibility and one that hasn't adopted it to calculate the earliest possible retirement date.

Salary supplied for the current year was based on the annualized earnings for the year preceding the valuation date.

Assumptions were made to correct for missing, bad, or inconsistent data. These had no material impact on the results presented.

Amortization Schedule
Deferred (Inflows)/Outflows of Resources

	Remaining Recognition period (or amortization Years)	Total Remaining (Inflow) or Outflow of Resources	Measurement Year							
			2016	2017	2018	2019	2020	2021	Thereafter	
Due to Liabilities:										
difference in experiences (in flows) /outflows										
	2016	4.3900	(178,129)	(40,576)	(40,576)	(40,576)	(40,576)	(15,825)	0	0
	2015	2.9600	(31,028)	(10,483)	(10,483)	(10,062)	0	0	0	0
	Total		\$ (51,059)	\$ (51,059)	\$ (50,638)	\$ (40,576)	\$ (15,825)	\$ 0	\$ 0	\$ 0
change in assumptions (inflows)/outflows										
	2015	2.9600	47,666	16,104	16,104	15,458	0	0	0	0
	Total		\$ 16,104	\$ 16,104	\$ 15,458	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Due to Assets:										
excess investment returns (inflows) /outflows										
	2016	5.0000	(458)	(92)	(92)	(92)	(92)	(90)	0	0
	2015	4.0000	387,274	96,818	96,818	96,818	96,820	0	0	0
	Total		\$ 96,726	\$ 96,726	\$ 96,726	\$ 96,728	\$ (90)	\$ 0	\$ 0	\$ 0

REQUIRED SUPPLEMENTARY INFORMATION

A. Total pension liability

	2015	2014
1. Service Cost	\$329,287	\$297,602
2. Interest (on the Total Pension Liability)	608,242	586,902
3. Changes of benefit terms		0
4. Difference between expected and actual experience	(178,129)	(41,511)
5. Changes of assumptions	0	63,770
6. Benefit payments, including refunds of employee contributions	(261,132)	(330,741)
7. Net change in total pension liability	498,268	576,022
8. Total pension liability -- beginning	8,976,908	8,400,886
9. Total pension liability - ending	9,475,176	8,976,908

B. Plan fiduciary net position

1. Contributions - employer	257,085	261,262
2. Contributions - employee	151,049	150,152
3. Net investment income	483,011	10,243
4. Benefit payments, including refunds of employee contributions	(261,132)	(330,741)
5. Administrative Expense	(5,456)	(6,349)
6. Other	(294)	(132)
7. Net change in plan fiduciary net position	624,263	84,435
8. Plan fiduciary net position - beginning	7,148,938	7,064,503
9. Plan fiduciary net position - ending*	7,773,201	7,148,938

C. Net pension liability (A.9 - B.9)

\$1,701,975	\$1,827,970
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D. Plan fiduciary net position as a percentage
of the total pension liability (B.9 / A.9)

82.04%	79.64%
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E. Covered-employee payroll (B.9 / A.9)

\$3,020,985	\$3,003,048
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F. Net pension liability as a percentage
of covered employee payroll (C/E)

56.34%	60.87%
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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 market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes

There were no benefit changes during the year

AGENCY FUNDS

CITY OF LULING, TEXAS
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 MARCH 31, 2018

	<u>Agency Funds</u>		
	Trust and Agency Fund	Ainsworth Trust Fund	Total
ASSETS			
Cash and Cash Equivalents	\$66,899	\$99,818	\$166,717
Receivables (net of allowance for uncollectibles)	140	0	140
Total Assets	<u>67,039</u>	<u>99,818</u>	<u>166,857</u>
LIABILITIES:			
Accounts Payable	\$0	\$0	\$0
Due to Others	67,039	99,818	166,857
Total Liabilities	<u>67,039</u>	<u>99,818</u>	<u>166,857</u>

The accompanying notes are an integral part of this statement.

CITY OF LULING, TEXAS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 YEAR ENDED MARCH 31, 2018

<u>TRUST AND AGENCY FUND</u>	BALANCE 4/1/2017	ADDITIONS	DEDUCTIONS	BALANCE 3/31/2018
ASSETS				
Cash and Cash Equivalents	\$66,182	\$717		\$66,899
Receivables (net of allowance for uncollectibles)	95	140	95	140
Total Assets	<u>\$66,277</u>	<u>\$857</u>	<u>\$95</u>	<u>\$67,039</u>
LIABILITIES:				
Accounts Payable				0
Due to Others	66,277	857	95	67,039
Total Liabilities	<u>\$66,277</u>	<u>\$857</u>	<u>\$95</u>	<u>\$67,039</u>

<u>AINSWORTH TRUST FUND</u>	BALANCE 4/1/2017	ADDITIONS	DEDUCTIONS	BALANCE 3/31/2018
ASSETS				
Cash and Cash Equivalents	\$109,609	\$28,325	\$38,116	\$99,818
Receivables (net of allowance for uncollectibles)	0			0
Total Assets	<u>\$109,609</u>	<u>\$28,325</u>	<u>\$38,116</u>	<u>\$99,818</u>
LIABILITIES:				
Accounts Payable	\$666		\$666	0
Due to Others	108,943	28,325	37,450	99,818
Total Liabilities	<u>\$109,609</u>	<u>\$28,325</u>	<u>\$38,116</u>	<u>\$99,818</u>

<u>TOTAL</u>	BALANCE 4/1/2017	ADDITIONS	DEDUCTIONS	BALANCE 3/31/2018
ASSETS				
Cash and Cash Equivalents	\$175,791	\$29,042	\$38,116	\$166,717
Receivables (net of allowance for uncollectibles)	95	140	95	140
Total Assets	<u>\$175,886</u>	<u>\$29,182</u>	<u>\$38,211</u>	<u>\$166,857</u>
LIABILITIES:				
Accounts Payable	666	0	666	0
Due to Others	175,220	29,182	37,545	166,857
Total Liabilities	<u>\$175,886</u>	<u>\$29,182</u>	<u>\$38,211</u>	<u>\$166,857</u>

The accompanying notes are an integral part of this statement.