

CITY OF POTEET, TEXAS
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
September 30, 2017

City of Poteet, Texas
Annual Financial Report
For the Fiscal Year Ended September 30, 2017

TABLE OF CONTENTS

FINANCIAL SECTION

1. Independent Auditor's Report
3. Management's Discussion and Analysis

Basic Financial Statements:

Government-wide Financial Statements:

12. Statement of Net Assets
13. Statement of Activities

Fund Financial Statements:

14. Balance Sheet - Governmental Funds
15. Reconciliation of the Government Funds
16. Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
17. Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
18. Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
19. Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual – Debt Service Fund
20. Statement of Net Assets – Proprietary Funds
22. Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
23. Statement of Cash Flows - Proprietary Funds
25. Notes to the Financial Statements

Required Supplementary Information:

60. Employees Retirement System Information

Combining and Individual Fund Statements and Schedules:

62. Combining Balance Sheet - Non-major Governmental Funds
63. Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major
Governmental Funds

Single Audit Section:

64. Schedule of Expenditures of Federal Awards
65. Community Development Block Grants/States Program - Budget-Award No. 7215400
66. Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
68. Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by THE UNIFORM GUIDANCE
70. Notes to Schedule of Expenditures of Federal Awards
70. Schedule of Prior Audit Findings
71. Schedule of Findings and Questioned Costs

FINANCIAL SECTION

BEYER & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Wayne R. Beyer, C.P.A.

P.O. Box 366 / 442 West Oaklawn
Pleasanton, Texas 78064
Phone: (830) 569-8781 ~ Fax: (830) 569-6776
E-mail: beyerandco@sbcglobal.net

111 North Odem
Sinton, Texas 78387

Please reply to Pleasanton address

INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Poteet, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 Poteet, Texas, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General 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 3–11 and 60–61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Poteet, Texas' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2018, on our consideration of the City of Poteet, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Poteet, Texas' internal control over financial reporting and compliance.



BEYER & COMPANY
Certified Public Accountants
March 19, 2018

Management's Discussion and Analysis

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

Financial Highlights

- . The assets of the City of Poteet, Texas exceeded its liabilities at the close of the most recent fiscal year by \$3,651,730 (Net Position). Of this amount, \$858,854 (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 \$408,894. The reason for this increase is as follows: The utility fund received federal grants of \$913,144.
- . As of the close of the current fiscal year, the City of Poteet, Texas' governmental funds reported combined ending fund balances of \$53,432, a decrease of \$369,651 in comparison with the prior year. None of this amount is available for spending at the government's discretion (unassigned fund balance).
- . At the end of the current fiscal year, unassigned fund balance for the general fund was a negative \$182,549, or 0 percent of total general fund expenditures.
- . The City of Poteet, Texas' total bonded debt increased by \$1,759,000 (48 percent) during the current fiscal year. The key factor in this increase was a result of USDA bond proceeds.

Overview of the Financial Statements

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

The statement of Net Position presents information on all of the City of Poteet, 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 Poteet, 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 Poteet, 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 Poteet, Texas include general administration, public safety, public transportation, and culture and recreation. The business-type activities of the City of Poteet, Texas include the Utility fund.

The government-wide financial statements include only the City of Poteet, Texas itself (known as the primary government).

The government-wide financial statements can be found on pages 12-13 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Poteet, 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 Poteet, Texas can be divided into two categories: governmental funds and proprietary funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on 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 Poteet, Texas maintains seven 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 and the debt service fund which are considered to be major funds.

The City of Poteet, Texas adopts an annual appropriated budget for its general fund and the debt service fund. A budgetary comparison statement has been provided for the general fund and the debt service fund to demonstrate compliance with this budget. The budget for the general fund can be found on page 18 of this report. The budget for the debt service fund can be found on page 19 of this report.

The basic governmental fund financial statements can be found on pages 14-19 of this report.

Proprietary funds: The City of Poteet, 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 Poteet, 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 Poteet, Texas.

The basic proprietary fund financial statements can be found on pages 20-24 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-59 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 Poteet, Texas' progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 60-61 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 62-63 of this report.

Government-wide Financial Analysis

As noted earlier, Net Position may serve over time as a useful indicator of a government's financial position. In the case of the City of Poteet, Texas, assets exceeded liabilities by \$3,651,730 at the close of the most recent fiscal year.

By far the largest portion of the City of Poteet, Texas' Net Position (73 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 Poteet, Texas uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Poteet, 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 POTEET, TEXAS NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other Assets	\$665,595	\$849,035	\$817,769	\$562,560	\$1,483,364	\$1,411,595
Capital Assets:	1,944,293	1,887,458	6,776,589	4,749,982	8,720,882	6,637,440
Total Assets	2,609,888	2,736,493	7,594,358	5,312,542	10,204,246	8,049,035
Total Deferred Outflows of Resources	74,245	129,343	36,779	78,899	111,024	208,242
Long-Term Liabilities	2,499,582	2,466,885	3,695,151	1,934,448	6,194,733	4,401,333
Other Liabilities	232,878	53,352	235,362	559,756	468,240	613,108
Total Liabilities	2,732,460	2,520,237	3,930,513	2,494,204	6,662,973	5,014,441
Total Deferred Inflows of Resources	366	0	201	0	567	0
Invested in Capital Assets, Net of Related Debt	(440,764)	(465,937)	3,098,424	2,826,549	2,657,660	2,360,612
Restricted	115,490	263,174	19,726	0	135,216	263,174
Unrestricted	276,581	548,362	582,273	70,688	858,854	619,050
Total Net Position	(\$48,693)	\$345,599	\$3,700,423	\$2,897,237	\$3,651,730	\$3,242,836

An additional portion of the City of Poteet, Texas' Net Position (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted Net Position \$858,854 may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City of Poteet, 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 except for the invested in capital assets, net of related debt for its separate governmental activities which had a negative amount of \$440,764. For the prior fiscal year, the City of Poteet, 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 except for the invested in capital assets, net of related debt for its separate governmental activities which had a negative amount of \$465,937.

The government's total Net Position increased by \$408,894. The reason for this increase is as follows:
The utility fund received federal grants of \$913,144.

Governmental activities:

Governmental activities decreased the City of Poteet, Texas' Net Position by \$394,292, thereby accounting for 0 percent of the total growth in the Net Position of the City of Poteet, Texas. The sales taxes and miscellaneous income decreased by \$32,270 and \$52,317, respectively and the public safety expenses increased by \$201,112.

**CITY OF POTEET, TEXAS
CHANGE IN NET POSITION**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for Services	\$71,108	\$102,783	\$1,445,611	\$1,591,973	\$1,516,719	\$1,694,756
Capital Grants and Contributions	42,201	293,614	913,144	54,000	955,345	347,614
General Revenues:						
Maintenance and Operations Taxes	710,093	705,157			710,093	705,157
Sales Taxes	340,512	372,782			340,512	372,782
Franchise Taxes	83,329	77,182			83,329	77,182
Other Taxes	3,175	1,425			3,175	1,425
Licenses and Permits	77,657	34,713			77,657	34,713
Unrestricted Investment Earnings	1,165	21			1,165	21
Miscellaneous	18,860	71,177			18,860	71,177
Total Revenue	1,348,100	1,658,854	2,358,755	1,645,973	3,706,855	3,304,827
Expenses:						
General Administration	244,541	326,341			244,541	326,341
Public Safety	1,045,008	843,896			1,045,008	843,896
Public Facilities	0	290,068			0	290,068
Public Transportation	181,526	185,551			181,526	185,551
Culture and Recreation	190,999	137,405			190,999	137,405
Interest and Fiscal Charges	80,318	70,289			80,318	70,289
Utility			1,555,569	1,399,678	1,555,569	1,399,678
Total Expenses	1,742,392	1,853,550	1,555,569	1,399,678	3,297,961	3,253,228
Increase in Net Position before transfers and special items	(394,292)	(194,696)	803,186	246,295	408,894	51,599
Transfers	0	(3,462)	0	3,462	0	0
Increase in Net Position	(394,292)	(198,158)	803,186	249,757	408,894	51,599
Net Position at 09/30/2016	345,599	543,757	2,897,237	2,647,480	3,242,836	3,191,237
Net Position at 09/30/2017	(\$48,693)	\$345,599	\$3,700,423	\$2,897,237	\$3,651,730	\$3,242,836

Expenses and Program Revenues - Governmental Activities

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Government activities:				
General Administration	\$244,541	\$8,465	\$0	\$0
Public Safety	1,045,008	17,231		42,201
Public Facilities	0	33,806		
Public Transportation	181,526			
Culture and Recreation	190,999	11,606		
Interest and Fiscal Charges	80,318			
Total government activities	<u>\$1,742,392</u>	<u>\$71,108</u>	<u>\$0</u>	<u>\$42,201</u>

Revenues by Source - Governmental Activities

	<u>REVENUES</u>	<u>%</u>
Charges for Services	\$71,108	5.27%
Capital Grants and Contributions	42,201	3.13%
Maintenance and Operations Taxes	710,093	52.67%
Sales Taxes	340,512	25.26%
Franchise Taxes	83,329	6.18%
Other Taxes	3,175	0.24%
Licenses and Permits	77,657	5.76%
Unrestricted Investment Earnings	1,165	0.09%
Miscellaneous	18,860	1.40%
	<u>\$1,348,100</u>	<u>100.00%</u>

Business-type activities:

Business-type activities increased the City of Poteet, Texas' Net Position by \$803,186 thus accounting for 100 percent of the total growth in the Net Position of the City of Poteet, Texas. The reason for this increase is as follows: The utility fund received federal grants of \$913,144.

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Business-Type Activities:				
Utility	\$1,555,569	\$1,445,611	\$0	\$913,144
Total Business-Type Activities	<u>1,555,569</u>	<u>1,445,611</u>	<u>0</u>	<u>913,144</u>
Total Primary Government	<u>\$1,555,569</u>	<u>\$1,445,611</u>	<u>\$0</u>	<u>\$913,144</u>

Revenues by Source - Business-type Activities

	<u>REVENUES</u>	<u>%</u>
Charges for Services	\$1,445,611	61.29%
Capital Grants and Contributions	913,144	38.71%
	<u>\$2,358,755</u>	<u>100.00%</u>

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

Governmental funds:

The focus of the City of Poteet, 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 Poteet, 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 close of the current fiscal year, the City of Poteet, Texas' governmental funds reported combined ending fund balances of \$53,432, a decrease of \$369,651 in comparison with the prior year. None of this amount is available for spending at the government's discretion (unassigned fund balance). The remainder of fund balance is restricted, committed, and non-spendable.

The general fund is the chief operating fund of the City of Poteet, Texas. At the end of the current fiscal year, unreserved fund balance of the general fund was a minus \$182,549, while total fund balance reached a minus \$119,915. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 0 percent of total general fund expenditures, while total fund balance represents 0 percent of that same amount.

The fund balance of the City of Poteet, Texas' general fund decreased by \$380,178 during the current fiscal year. Key factors in this decrease are as follows:

- . Police Vehicle Purchases - \$125,234.
- . Library Construction - \$125,262.

At the end of the current fiscal year, restricted fund balance of the debt service fund was \$47,269 while total fund balance was \$47,269. As a measure of the debt service fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The restricted fund balance represents 21 percent of total debt service fund expenditures, while total fund balance represents 21 percent of that same amount.

The fund balance of the City of Poteet, Texas' debt service fund decreased by \$17,112 during the current fiscal year. Key factors in this decrease are as follows:

- . The 2017 ad valorem taxes collected was less than the debt service debt service by \$24,298.

Proprietary funds:

The City of Poteet, 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 at the end of the year amounted to \$582,273. The increase in Net Position was \$803,186. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Poteet, Texas' business-type activities.

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget in the general fund. Overall, the actual expenditures in the general fund of \$1,356,071 were more than the budgeted expenditures of \$1,263,306 by \$92,765.

Capital Asset and Debt Administration

Capital assets:

The City of Poteet, Texas' investment in capital assets for its governmental and business-type activities as of September 30, 2017, amounts to \$8,720,882 (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 increase in the City of Poteet, Texas' investment in capital assets for the current fiscal year was 31 percent (a 3 percent increase for governmental activities and a 43 percent increase for business-type activities).

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

- . The City is currently engaged in a water system construction project and a library project.

CITY OF POTEET, TEXAS CAPITAL ASSETS (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$81,917	\$81,917	\$8,959	\$8,959	\$90,876	\$90,876
Construction in Progress	165,877	0	2,797,257	538,141	2,963,134	538,141
Building and Improvements	312,572	327,536	63,169	94,453	375,741	421,989
Machinery, Equipment and Vehicles	344,853	317,950	0	0	344,853	317,950
Intangible	41,972	42,477	0	0	41,972	42,477
Infrastructure	997,102	1,117,578	3,907,204	4,108,429	4,904,306	5,226,007
Total	\$1,944,293	\$1,887,458	\$6,776,589	\$4,749,982	\$8,720,882	\$6,637,440

Additional information on the City of Poteet, Texas' capital assets can be found in note IV C on pages 36-37 of this report.

Long-term debt:

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year	Due After one year
<u>Governmental Activities:</u>						
Bonds Payable	\$2,015,750	\$0	\$49,500	\$1,966,250	\$52,250	\$1,914,000
	<u>2,015,750</u>	<u>0</u>	<u>49,500</u>	<u>1,966,250</u>	<u>52,250</u>	<u>1,914,000</u>
<u>Business-Type Activities:</u>						
Bonds Payable	1,649,250	1,875,000	66,500	3,457,750	72,750	3,385,000
	<u>1,649,250</u>	<u>1,875,000</u>	<u>66,500</u>	<u>3,457,750</u>	<u>72,750</u>	<u>3,385,000</u>
Grand Total	<u>\$3,665,000</u>	<u>\$1,875,000</u>	<u>\$116,000</u>	<u>\$5,424,000</u>	<u>\$125,000</u>	<u>\$5,299,000</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 25 percent of its total assessed valuation. The current debt limitation for the City of Poteet, Texas is \$13,991,770, which is significantly in excess of the City of Poteet, Texas' outstanding general obligation debt.

Additional information on the City of Poteet, Texas' long-term debt can be found in note IV E on pages 38-41 of this report.

Economic Factors and Future Trends

The Eagle Ford Oil and Gas Shale had brought in new businesses which have increased the sales taxes significantly; however, the sales taxes have fallen recently because of a downturn in the oil and gas industry. Industry trends indicate the Oil and Gas industry will pick back up in the near future.

Requests for Information

This financial report is designed to provide a general overview of the City of Poteet, 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, P.O. Box 378, Poteet, Texas, 78065.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF POTEET, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and Cash Equivalents	\$104,790	\$463,088	\$567,878
Receivables (Net of Allowance for Uncollectibles)	196,615	201,756	398,371
Net Pension Receivable	112,340	78,547	190,887
Due from Other Funds	(54,652)	54,652	0
Restricted Assets:			
Cash and Cash Equivalents	227,154	19,726	246,880
Receivables (Net of Allowance for Uncollectibles)	79,348		79,348
Capital Assets Not Being Depreciated:			
Land	81,917	8,959	90,876
Construction in Progress	165,877	2,797,257	2,963,134
Total Capital Assets Being Depreciated, Net			
Building and Improvements	312,572		312,572
Machinery and Equipment	344,853	63,169	408,022
Intangible	41,972		41,972
Infrastructure	997,102	3,907,204	4,904,306
Total Assets	\$2,609,888	\$7,594,358	\$10,204,246
DEFERRED OUTFLOWS OF RESOURCES			
GASB 68			
Contributions (after 12/31/16)	31,783	17,394	49,177
Loss on Bond Refunding	42,462	19,385	61,847
Total Deferred Outflows of Resources	74,245	36,779	111,024
LIABILITIES:			
Accounts Payable	\$217,622	\$38,260	\$255,882
Accrued Wages Payable	5,413	3,119	8,532
Accrued Interest Payable	5,738	12,208	17,946
Consumer Meter Deposit		181,775	181,775
Unearned Revenues - LEOSE Training	4,105		4,105
Noncurrent Liabilities:			
Due Within One Year	191,953	127,526	319,479
Due in More Than One Year	2,307,629	3,567,625	5,875,254
Total Liabilities	2,732,460	3,930,513	6,662,973
DEFERRED INFLOWS OF RESOURCES			
GASB 68			
Difference in expected and actual experience	307	168	475
Difference in projected and actual earnings on pension plan investments	59	33	92
Total Deferred Inflows of Resources	366	201	567
NET POSITION			
Invested in Capital Assets, Net of Related Debt	(440,764)	3,098,424	2,657,660
Restricted			
Court Security Fund	3,984		3,984
D. A. R. E.	251		251
Debt Service	47,269	19,726	66,995
Library	62,383		62,383
State Forfeiture	1,603		1,603
Unrestricted	276,581	582,273	858,854
Total Net Position	(\$48,693)	\$3,700,423	\$3,651,730

The accompanying notes are an integral part of this statement.

CITY OF POTEET, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017

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	
Primary Government						
Government Activities:						
General Administration	\$244,541	\$8,465	\$0	\$0	(\$236,076)	(\$236,076)
Public Safety	1,045,008	17,231		42,201	(985,576)	(985,576)
Public Facilities	0	33,806			33,806	33,806
Public Transportation	181,526				(181,526)	(181,526)
Culture and Recreation	190,999	11,606			(179,393)	(179,393)
Interest and Fiscal Charges	80,318				(80,318)	(80,318)
Total Government Activities	<u>1,742,392</u>	<u>71,108</u>	<u>0</u>	<u>42,201</u>	<u>(1,629,083)</u>	<u>0</u>
Business-Type Activities:						
Utility	1,555,569	1,445,611		913,144		803,186
Total Business-Type Activities	<u>1,555,569</u>	<u>1,445,611</u>	<u>0</u>	<u>913,144</u>	<u>0</u>	<u>803,186</u>
Total Primary Government	<u>\$3,297,961</u>	<u>\$1,516,719</u>	<u>\$0</u>	<u>\$955,345</u>	<u>(1,629,083)</u>	<u>803,186</u>
General Revenues						
Property Taxes, Levies for General Purposes					710,093	710,093
Sales Taxes					340,512	340,512
Franchise Taxes					83,329	83,329
Other Taxes					3,175	3,175
Licenses and Permits					77,657	77,657
Unrestricted Investment Earnings					1,165	1,165
Miscellaneous					18,860	18,860
Transfers					0	0
Total General Revenues and Transfers					<u>1,234,791</u>	<u>0</u>
Change in Net Position					(394,292)	803,186
Net Position - Beginning					345,599	2,897,237
Net Position - Ending					<u>(\$48,693)</u>	<u>\$3,700,423</u>

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF POTEET, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$104,790	\$0	\$0	\$104,790
Receivables (Net of Allowance for Uncollectibles)	166,811			166,811
Prepaid Items				0
Due from Other Funds				0
Restricted Assets:				
Cash and Cash Equivalents	61,538	45,298	120,318	227,154
Receivables (Net of Allowance for Uncollectibles)		72,967	6,381	79,348
Due from Other Funds		1,971	5,740	7,711
Total Assets	\$333,139	\$120,236	\$132,439	\$585,814
LIABILITIES AND FUND BALANCES:				
Liabilities				
Accounts Payable	\$217,622			\$217,622
Accrued Wages	5,413			5,413
Compensated Absences	30,042			30,042
Unearned Revenues	4,105			4,105
Due to Other Funds	56,002		6,361	62,363
Total Liabilities	313,184	0	6,361	319,545
DEFERRED INFLOWS OF RESOURCES				
Deferred Property Taxes	139,870	72,967		212,837
Total Deferred Inflows of Resources	139,870	72,967	0	212,837
Fund Balances:				
Nonspendable				0
Restricted				
Court Security Fund			3,984	3,984
Court Technology				0
D. A. R. E.	251			251
Debt Service		47,269		47,269
Library	62,383			62,383
State Forfeiture			1,603	1,603
Committed				
Replacement			121,741	121,741
Unassigned	(182,549)		(1,250)	(183,799)
Total Fund Balance	(119,915)	47,269	126,078	53,432
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$333,139	\$120,236	\$132,439	\$585,814

The accompanying notes are an integral part of this statement.

CITY OF POTEET, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 SEPTEMBER 30, 2017

Total Fund Balances - Governmental Funds Balance Sheet

Amounts reported for governmental activities in the statement of net position ("SNA") are different because:	\$53,432
Capital assets used in governmental activities are not reported in the funds.	1,944,293
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	212,837
GASB 68	
Net Pension Receivable	112,340
Deferred Outflow - Contributions (after 12/31/16)	31,783
Deferred Inflow-Difference in expected and actual experience	(307)
Deferred Inflow-Difference in projected and actual earnings on pension plan investments	(59)
Loss on Bond Refunding	42,462
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	29,804
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,475,278)
Net Position of Governmental Activities - Statement of Net Position	<u><u>(\$48,693)</u></u>

The accompanying notes are an integral part of this statement.

CITY OF POTEET, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<i>REVENUES</i>				
Taxes				
Property	\$477,278	\$200,376	\$0	\$677,654
Sales	340,512			340,512
Franchise	83,329			83,329
Other	3,175			3,175
Licenses and Permits	77,657			77,657
Intergovernmental	42,201			42,201
Charges for Services	22,227		36,642	58,869
Fines and Forfeitures	39,372			39,372
Interest	1,165			1,165
Miscellaneous	11,674	7,186		18,860
Total Revenues	<u>1,098,590</u>	<u>207,562</u>	<u>36,642</u>	<u>1,342,794</u>
<i>EXPENDITURES</i>				
Current:				
General Administration	219,054		38	219,092
Public Safety	1,033,310		8,965	1,042,275
Public Facilities				0
Public Transportation	97,004			97,004
Culture and Recreation	299,400			299,400
Debt Service				
Principal Retirement		138,339		138,339
Interest and Fiscal Charges		86,335		86,335
Total Expenditures	<u>1,648,768</u>	<u>224,674</u>	<u>9,003</u>	<u>1,882,445</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(550,178)	(17,112)	27,639	(539,651)
<i>OTHER FINANCING SOURCES (USES):</i>				
Capital Lease Proceeds	170,000			170,000
Total Other Financing Sources (Uses)	<u>170,000</u>	<u>0</u>	<u>0</u>	<u>170,000</u>
Net Changes in Fund Balances	<u>(380,178)</u>	<u>(17,112)</u>	<u>27,639</u>	<u>(369,651)</u>
Fund Balances - Beginning	260,263	64,381	98,439	423,083
Fund Balances - Ending	<u>(\$119,915)</u>	<u>\$47,269</u>	<u>\$126,078</u>	<u>\$53,432</u>

The accompanying notes are an integral part of this statement.

CITY OF POTEET, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 SEPTEMBER 30, 2017

Net Changes in Fund Balances - Total Governmental Funds	(\$369,651)
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.	56,835
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	32,439
GASB 68	
Net Pension Receivable. This is the change in these amounts this year.	(7,443)
Deferred Outflow of Resources-Contribution. This is the change in these amounts this year.	9,475
Deferred Outflow-Investment Experience. This is the change in these amounts this year.	(44,370)
Deferred Outflow-Actual Experience vs. Assumption. This is the change in these amounts this year.	(18,800)
Amortization of Loss on Bond Refunding	(1,769)
(Increase) decrease in accrued interest from beginning of period to end of period.	4,267
Increase in loan principal are receipts in the funds but not revenue in the SOA.	(170,000)
Amortization of Increase in bond premium	3,520
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.	(27,133)
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	<u>138,338</u>
Change in Net Position of Governmental Activities - Statement of Activities	<u><u>(\$394,292)</u></u>

The accompanying notes are an integral part of this statement.

CITY OF POTEET, TEXAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - (BUDGETARY BASIS) - BUDGET AND ACTUAL FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Budgetary Basis	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Taxes				
Property	\$467,172	\$467,172	\$477,278	\$10,106
Sales	375,000	375,000	340,512	(34,488)
Franchise	75,000	75,000	83,329	8,329
Other	1,200	1,200	3,175	1,975
Licenses and Permits	39,750	39,750	77,657	37,907
Charges for Services	14,500	14,500	22,227	7,727
Fines and Forfeitures	60,000	60,000	39,372	(20,628)
Interest	0	0	1,165	1,165
Miscellaneous	750	750	11,674	10,924
Total Revenues	<u>1,033,372</u>	<u>1,033,372</u>	<u>1,056,389</u>	<u>23,017</u>
EXPENDITURES				
Current:				
General Administration				
General administration	212,196	212,196	219,054	(6,858)
Public Safety				
Animal Control	46,777	46,777	37,634	9,143
Municipal Court	70,374	70,374	85,918	(15,544)
Fire	23,365	23,365	18,412	4,953
Police Department	652,779	652,779	723,911	(71,132)
Public Transportation				
Streets	80,300	80,300	97,004	(16,704)
Culture and Recreation				
Library	86,854	86,854	89,048	(2,194)
Parks	90,661	90,661	85,090	5,571
Total Expenditures	<u>1,263,306</u>	<u>1,263,306</u>	<u>1,356,071</u>	<u>(92,765)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(229,934)	(229,934)	(299,682)	(69,748)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In				0
Total Other Financing Sources (Uses)	0	0	0	0
Net Changes in Fund Balances - Budgetary Basis	<u>(\$229,934)</u>	<u>(\$229,934)</u>	<u>(299,682)</u>	<u>(\$69,748)</u>
Reconciliation from Cash Basis to Modified Accrual Basis:				
Other Financing Sources - Capital Lease Proceeds			170,000	
Hazard Mitigation Grant - Grant Proceeds			42,201	
Hazard Mitigation Grant - Grant Expenditures			(42,201)	
Police Vehicle Purchases			(125,234)	
Library Construction			(125,262)	
Net Changes in Fund Balances - Modified Accrual Basis			<u>(380,178)</u>	
Fund Balances - Beginning			260,263	
Fund Balances - Ending			<u>(\$119,915)</u>	

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

CITY OF POTEET, TEXAS
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$199,859	\$199,859	\$200,376	\$517
Miscellaneous	7,185	7,185	7,186	1
Total Revenues	<u>207,044</u>	<u>207,044</u>	<u>207,562</u>	<u>518</u>
EXPENDITURES				
Current:				
Debt Service				
Principal Retirement	151,486	151,486	138,339	13,147
Interest Retirement	87,783	87,783	86,335	1,448
Total Expenditures	<u>239,269</u>	<u>239,269</u>	<u>224,674</u>	<u>14,595</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(32,225)	(32,225)	(17,112)	15,113
OTHER FINANCING SOURCES (USES):				
Operating Transfers In				0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Changes in Fund Balances	(32,225)	(32,225)	(17,112)	15,113
Fund Balances - Beginning	64,381	64,381	64,381	
Fund Balances - Ending	<u>\$32,156</u>	<u>\$32,156</u>	<u>\$47,269</u>	<u>\$15,113</u>

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

CITY OF POTEET, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	Business-Type Activities		
	Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$463,088	\$204,352	\$463,088
Accounts Receivables (Net of Allowance for Uncollectibles)	201,756	217,983	201,756
Net Pension Receivable	78,547	82,621	78,547
Due from Other Funds	147,247	60,480	147,247
Restricted Assets:			
Cash and Cash Equivalents - Construction	19,726		19,726
Total Current Assets	910,364	565,436	910,364
Capital Assets			
Land	8,959	8,959	8,959
Construction in Progress	2,797,256	538,141	2,797,256
Machinery and Equipment	161,207	200,405	161,207
Distribution System	7,634,318	7,634,317	7,634,318
Total Capital Assets	10,601,740	8,381,822	10,601,740
Less Accumulated Depreciation	(3,825,151)	(3,631,840)	(3,825,151)
Total Capital Assets (Net of Accumulated Depreciation)	6,776,589	4,749,982	6,776,589
Total Noncurrent Assets	6,776,589	4,749,982	6,776,589
DEFERRED OUTFLOWS OF RESOURCES			
Contributions (after 12/31/15)		15,387	0
Contributions (after 12/31/16)	17,394		17,394
Difference in expected and actual experience		30,393	0
Difference in projected and actual earnings on pension plan investments		12,927	0
Loss on Bond Refunding	19,385	20,192	19,385
Total Deferred Outflow of Resources	36,779	78,899	36,779
TOTAL ASSETS	\$7,723,732	\$5,394,317	\$7,723,732

(continued)

(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	\$38,260	\$370,044	\$38,260
Accrued Wages Payable	3,119	2,041	3,119
Compensated Absences	16,986	11,015	16,986
Accrued Interest Payable	12,208	12,328	12,208
Due to Other Funds	92,595	2,876	92,595
Capital Leases - Current Portion	37,790	50,872	37,790
Bonds Payable - Current Portion	72,750	40,500	72,750
Total Current Liabilities	<u>273,708</u>	<u>489,676</u>	<u>273,708</u>
Current Liabilities (Payable from Restricted Assets)			
Consumer Meter Deposits	<u>181,775</u>	<u>175,343</u>	<u>181,775</u>
Total Current Liabilities Payable from Restricted Assets	<u>181,775</u>	<u>175,343</u>	<u>181,775</u>
Noncurrent liabilities			
Capital Leases	113,503	151,309	113,503
Bonds Payable (Including Bond Premium)	3,454,122	1,680,752	3,454,122
Total Noncurrent Liabilities	<u>3,567,625</u>	<u>1,832,061</u>	<u>3,567,625</u>
Total Liabilities	<u>4,023,108</u>	<u>2,497,080</u>	<u>4,023,108</u>
DEFERRED INFLOWS OF RESOURCES			
GASB 68			
Difference in expected and actual experience	168	0	168
Difference in projected and actual earnings on pension plan investments	33	0	33
Total Deferred Inflow of Resources	<u>201</u>	<u>0</u>	<u>201</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	3,098,424	2,826,549	3,098,424
Restricted for Construction - Expendable	19,726		19,726
Unrestricted	582,273	70,688	582,273
Total Net Position	<u>\$3,700,423</u>	<u>\$2,897,237</u>	<u>\$3,700,423</u>

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

CITY OF POTEET, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities		
	Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
OPERATING REVENUES:			
Charges for Services - Water	\$616,989	\$704,179	\$616,989
Charges for Services - Sewer	443,811	469,766	443,811
Charges for Services - Garbage	307,895	304,537	307,895
Miscellaneous	76,916	113,491	76,916
Total Operating Revenues	<u>1,445,611</u>	<u>1,591,973</u>	<u>1,445,611</u>
OPERATING EXPENSES:			
Personal Services	528,688	379,073	528,688
Supplies	3,202	1,472	3,202
Other Services and Charges	723,896	744,077	723,896
Depreciation	212,846	216,060	212,846
Total Operating Expenses	<u>1,468,632</u>	<u>1,340,682</u>	<u>1,468,632</u>
Operating Income (Loss)	<u>(23,021)</u>	251,291	<u>(23,021)</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest Income			0
Interest and Fiscal Charges	(86,937)	(58,996)	(86,937)
Total Non-Operating Revenues (Expenses)	<u>(86,937)</u>	<u>(58,996)</u>	<u>(86,937)</u>
Income Before Transfers	<u>(109,958)</u>	192,295	<u>(109,958)</u>
Federal Grant	913,144	54,000	913,144
Transfers Out (Net)		3,462	0
Change in Net Position	803,186	249,757	803,186
Total Net Position - Beginning	<u>2,897,237</u>	<u>2,647,480</u>	<u>2,897,237</u>
Total Net Position - Ending	<u>\$3,700,423</u>	<u>\$2,897,237</u>	<u>\$3,700,423</u>

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

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

	Business-Type Activities		
	Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
Cash Flows from Operating Activities			
Receipts from Customers and Users	\$1,468,270	\$1,600,942	\$1,468,270
Payments to Suppliers	(1,055,243)	(565,668)	(1,055,243)
Payments to Employees	(476,051)	(399,543)	(476,051)
Net Cash Provided (Used) by Operating Activities	(63,024)	635,731	(63,024)
Cash Flows from Non-Capital and Related Financing Activities			
Transfers In	0	3,462	0
Federal Grant	913,144	54,000	913,144
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	913,144	57,462	913,144
Cash Flows from Capital and Related Financing Activities			
Principal Payment on Revenue Bonds, Notes and Capital Leases	(120,268)	(1,681,074)	(120,268)
Proceeds from Capital Debt	1,875,000	1,656,000	1,875,000
Interest and Fiscal Charges	(86,937)	(58,996)	(86,937)
Purchases of Capital Assets	(2,239,453)	(552,999)	(2,239,453)
Net Cash Provided (Used) by Capital and Related Financing Activities	(571,658)	(637,069)	(571,658)
Cash Flows from Investing Activities			
Interest Received	0	0	0
Net Cash Provided (Used) by Investment Activities	0	0	0
Net Increase (Decrease) in Cash Equivalents	278,462	56,124	278,462
Cash and Cash Equivalents at Beginning of Year	204,352	148,228	204,352
Cash and Cash Equivalents at End of Year	\$482,814	\$204,352	\$482,814

(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)	(\$23,021)	\$251,291	(\$23,021)
Adjustments to Reconcile to Net Cash Flow			
Non-Cash Items Included in Net Income			
Depreciation	212,846	216,060	212,846
Changes in Current Items			
Decrease (Increase) in Accounts Receivable	16,227	3,738	16,227
Decrease (Increase) in Net Pension Receivable	4,074	54,342	4,074
Increase (Decrease) in Due from Other Funds	(86,767)	(60,480)	(86,767)
Decrease (Increase) in Prepaid Items	0	0	0
Decrease (Increase) in Loss on Bond Refunding	807	0	807
Decrease (Increase) Deferred Outflow of Resources-Contributions	(2,007)	(10,128)	(2,007)
Increase (Decrease) Deferred Outflow-Diff. in expected and actual exp.	30,561	(24,920)	30,561
Increase (Decrease) Deferred Outflow-Diff. in projected and actual earnings on pension plan investments	12,960	(25,922)	12,960
Increase (Decrease) in Accounts Payable	(331,784)	304,559	(331,784)
Increase (Decrease) in Accrued Wages Payable	1,078	(10,163)	1,078
Increase (Decrease) in Compensated Absences	5,971	(3,679)	5,971
Increase (Decrease) in Accrued Interest Payable	(120)	(250)	(120)
Increase (Decrease) in Due to Other Funds	89,719	(63,948)	89,719
Increase (Decrease) in Consumer Meter Deposits	6,432	5,231	6,432
Net Cash Provided (Used) by Operating Activities	<u>(\$63,024)</u>	<u>\$635,731</u>	<u>(\$63,024)</u>
Noncash Investing, Capital, and Financing Activities:			
Federal Grant	\$913,144	\$54,000	\$967,144
USDA Bond Proceeds	1,875,000	40,000	1,915,000
	<u>\$2,788,144</u>	<u>\$94,000</u>	<u>\$2,882,144</u>

Note: The above funds are all enterprise funds.

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

CITY OF POTEET, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

I. Summary of significant accounting policies

A Reporting entity/ Basis of Accounting/Measurement Focus

The City of Poteet, Texas, was incorporated by an election. The City operates under a General Law 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 Poteet, 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.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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.

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, internal service fund transactions have been eliminated; however, 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.

C. Governmental Fund Financial Statements

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 taxes, sales taxes, and franchise 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 is used to service the G.O. Bonds.

D. 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.

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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Utility Fund (Water, Sewer, and Garbage) 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 nonoperating 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 water, sewer and garbage operations.

E. Assets, liabilities, and Net Position 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 and the City 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 September 30, 2017, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding trade accounts receivable at September 30, 2017, the trade accounts receivable allowance in excess of 90 days is equal to 25 percent of outstanding trade accounts receivable at September 30, 2017. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2017, and 10 percent of delinquent outstanding property taxes at September 30, 2017.

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

Inventories are considered immaterial and, therefore, there were no inventory items at September 30, 2017.

There were no prepaid items at September 30, 2017.

4. Restricted assets

The restricted assets at September 30, 2017 are as follows:

Restricted for:	
Court Technology	\$9,095
Public Safety	1,401
Library	61,538
Construction	135,929
Debt Service	118,265
Total Restricted	<u>\$326,228</u>

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 usually included as part of the capitalized value of the assets constructed. The City is currently engaged in a water system construction project and a library project.

Property, plant, and equipment of the primary government are 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 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. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds.

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 Position. 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. Fund equity

As of September 30, 2017, fund balances of the governmental funds are classified as follows:

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.

Committed — amounts that can be used only for specific purposes determined by a formal action of City Council. City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by City Council.

Unassigned — all other spendable amounts.

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 2011, 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 25 to 30 percent of the subsequent year's budgeted General Fund expenditures. The City fell short of this requirement as it posted a negative unassigned fund balance of \$183,799.

As of September 30, 2017, fund balances are composed of the following:

Restricted	
Court Security Fund	\$3,984
Court Technology	0
D. A. R. E.	251
Debt Service	47,269
Library	62,383
State Forfeiture	1,603
Committed	
Replacement	121,741
Unassigned	<u>(183,799)</u>
Total Fund Balance	<u>\$53,432</u>

9. 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. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

10. 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.

The City reports unearned revenue on its fund financial statements. Unearned revenues arise when potential revenue does not meet both the "measureable" and "available" criteria for recognition in the current period (fund financial statements). Unearned revenues also arise when resources are unearned by the City and received before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures (fund financial statements and government-wide financial statements). In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statement and revenue is recognized. Pursuant to GASB 65 we have included deferred ad valorem taxes as deferred inflows in the fund financial statements.

11. 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.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of Net Position

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$2,475,278 difference are as follows:

Bonds Payable	\$1,966,250
Capital Leases	418,807
Bond Issuance Premium	84,483
Accrued Interest Payable	5,738
	<u>\$2,475,278</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 Position 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 \$1,994,293 difference are as follows:

Capital assets not being depreciated	\$247,794
Capital assets being depreciated	9,080,898
Depreciation expense	(7,384,399)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$1,944,293</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.") The details of this \$212,837 difference are as follows:

Property Taxes Receivable	\$232,050
Allowance for Doubtful Accounts	(19,213)
Net	<u>\$212,837</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that "Municipal fines and fees receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.)" The details of this \$29,804 difference are as follows:

Fines and Fees Receivable	\$113,974
Allowance for Doubtful Accounts	<u>(84,170)</u>
Net	<u><u>\$29,804</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 Position 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 \$56,835 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	\$165,877
Capital Outlay - Additions - Being Depreciated	130,572
Capital Outlay - Deletions	(11,478)
Depreciation Expense	(228,136)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u><u>\$56,835</u></u>

III. Stewardship, compliance, and accountability

A. Budgetary information

The City Administrator had been authorized by the council to prepare the budget. He is assisted by the City Secretary. 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 Administrator. 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 Administrator 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 September 30, 2017.

B. Excess of expenditures over appropriations

For the year ended September 30, 2017, excess of expenditures over appropriations occurred in the general fund whereby actual expenditures of \$1,356,071 were more than the budgeted expenditures of \$1,263,306 by \$92,765.

C. Deficit fund equity

The City had no deficit fund balances as of September 30, 2017 except for the court technology fund which had a deficit fund balance of \$1,250 and the general fund which had a deficit fund balance of \$119,915. This deficit is expected to be liquidated by future resources of the fund.

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 had adopted a deposit and investment policy. That policy does address the following risks:

- a. **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 City is not exposed to custodial credit risk because its deposits are fully covered by depository insurance and collateral held by the depository in the City's name. The City's total cash in the depository bank at September 30, 2017 was \$731,075 while the collateral coverage total was \$589,558 and the FDIC coverage was \$250,000. The book amount of the cash was \$219,364.
- b. **Custodial Credit Risk - Investments:** The City's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The City's investments in the Wells Fargo Advantage Treasury Plus Money Market Fund had an AAAM rating from Standard & Poor's and Aaam by Moodys.
- c. **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.
- d. **Concentration of Credit Risk.** The Plan places no limit on the amount the Plan may invest in any one issuer. More than 5 percent of the Plan's investments are in Wells Fargo Investments. This investment is 100.00% of the Plan's total investments.

A. Deposits and investments (continued)

The City's investments at September 30, 2017, are shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>
Wells Fargo Investments:		
Money Market Mutual Funds	<u>\$112,580</u>	0.08
Total Fair Value	<u>\$112,580</u>	
Portfolio Weighted Average Maturity		<u>0.08</u>

The value of Money Market Mutual Funds decreased \$125,835 from a value of \$238,415 September 30, 2016 to a balance of \$112,580 at September 30, 2017.

B. Receivables

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

<u>Receivables</u>	Other				Total
	General	Debt Service	Governmental Funds	Utility	
Taxes	\$152,496	\$79,554			\$232,050
Accounts				270,406	270,406
Sales Tax	26,941				26,941
Fines	113,974				113,974
Other			6,381		6,381
Gross Receivables	<u>293,411</u>	<u>79,554</u>	<u>6,381</u>	<u>270,406</u>	<u>649,752</u>
Less: Allowance for Uncollectibles	<u>96,796</u>	<u>6,587</u>		<u>68,650</u>	<u>172,033</u>
Net Total Receivables	<u>\$196,615</u>	<u>\$72,967</u>	<u>\$6,381</u>	<u>\$201,756</u>	<u>\$477,719</u>

C. Capital assets

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

Governmental Activities:	Beginning			Ending
Capital assets not being depreciated:	Balances	Increases	Decreases	Balances
Land	\$81,917			\$81,917
Construction in Progress	0	165,877	0	165,877
Total capital assets not being depreciated:	81,917	165,877	0	247,794
Capital assets being depreciated:				
Building and Improvements	1,114,421	0	0	1,114,421
Machinery, Equipment and Vehicles	973,885	125,234	40,577	1,058,542
Intangible	53,095	5,338	0	58,433
Infrastructure	6,849,502	0	0	6,849,502
Total capital assets being depreciated:	8,990,903	130,572	40,577	9,080,898
Less: Accumulated Depreciation for:				
Building and Improvements	786,885	14,964	0	801,849
Machinery, Equipment and Vehicles	655,935	86,853	29,099	713,689
Intangible	10,618	5,843	0	16,461
Infrastructure	5,731,924	120,476	0	5,852,400
Total Accumulated Depreciation	7,185,362	228,136	29,099	7,384,399
Total Capital Assets Depreciated, Net	1,805,541	(97,564)	11,478	1,696,499
Governmental Activities capital assets, Net	\$1,887,458	\$68,313	\$11,478	\$1,944,293
Business-Type Activities:	Beginning			Ending
Capital assets not being depreciated:	Balances	Increases	Decreases	Balances
Land	\$8,959	\$0	\$0	\$8,959
Construction in Progress	538,141	2,259,116		2,797,257
Total capital assets not being depreciated:	547,100	2,259,116	0	2,806,216
Capital assets being depreciated:				
Machinery, Equipment and Vehicles	200,405	8,000	47,198	161,207
Distribution System	7,634,317		0	7,634,317
Total capital assets being depreciated:	7,834,722	8,000	47,198	7,795,524
Less: Accumulated Depreciation for:				
Machinery, Equipment and Vehicles	105,952	11,622	19,536	98,038
Distribution System	3,525,888	201,225	0	3,727,113
Total Accumulated Depreciation	3,631,840	212,847	19,536	3,825,151
Total Capital Assets Depreciated, Net	4,202,882	(204,847)	27,662	3,970,373
Business-Type Activities Capital Assets, Net	\$4,749,982	\$2,054,269	\$27,662	\$6,776,589

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

Governmental Activities	
General Administration	\$17,807
Public Safety	71,083
Public Transportation	125,138
Culture and Recreation	<u>14,108</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$228,136</u></u>
Business-Type Activities	
Utility	<u>\$212,847</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$212,847</u></u>

Construction commitments: The City is currently engaged in a water system construction project and a library project.

D. Interfund receivables, payables, and transfers

There were no interfund receivables at September 30, 2017.

The due to/from other funds is listed below. The amounts due to the utility fund and to the debt service fund were for operations. The above amounts are expected to be repaid within the year.

<u>DUE FROM</u>	DUE TO				<u>TOTAL</u>
	GENERAL FUND	DEBT SERVICE FUND	UTILITY FUND	NON-MAJOR GOVERNMENTAL FUNDS	
GENERAL SERVICE FUND		\$1,971	\$60,204		\$62,175
NON-MAJOR GOVERNMENTAL FUNDS	(6,173)			(1,350)	(7,523)
TOTALS	<u>(\$6,173)</u>	<u>\$1,971</u>	<u>\$60,204</u>	<u>(\$1,350)</u>	<u>\$54,652</u>

There were no interfund fund transfers for the year ended September 30, 2017.

E. Long-term debt

Bonds

General Obligation bonds are direct obligations and pledge the full faith and credit of the government and are secured solely by specified revenue sources. General Obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>	<u>Security</u>
Governmental activities	.04 to 3.75	\$1,966,250	Ad Valorem Taxes and Utility Revenues
Business-type activities	.04 to 3.75	1,608,750	Ad Valorem Taxes and Utility Revenues
Business-type activities	.0225	1,849,000	Utility Revenues

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

Year Ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$52,250	\$70,932	\$72,750	\$99,171
2019	55,000	69,331	76,000	97,197
2020	55,000	68,277	76,000	95,553
2021	57,750	66,951	79,250	93,870
2022	60,500	65,467	82,500	91,946
2023-2027	330,000	291,525	446,000	419,210
2028-2032	404,250	218,164	525,750	339,061
2033-2037	489,500	130,734	620,500	245,042
2038-2042	462,000	35,362	623,000	141,763
2043-2047	0	0	276,000	84,150
2048-2052	0	0	308,000	51,683
2053-2056	0	0	272,000	15,458
TOTALS	\$1,966,250	\$1,016,743	\$3,457,750	\$1,774,100

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

E. Long-term debt (continued)

Capital Leases

The government had entered into a lease agreement as lessee for financing the acquisition of a one-fourth interest in a fire truck, equipment and vehicles for \$130,769 and \$94,490, computer and equipment for \$35,000, sewer equipment for \$132,000, 2 pumpers for \$160,250, financial software for \$108,937, dewatering unit for \$51,531, and four Chevrolet trucks for \$125,234. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception dates. Please note that the City has title in one-fourth interest of the fire truck and once payment is completed the title will transfer to the local volunteer fire department and therefore no depreciation is being calculated. The security pledged for the capital leases is the equipment financed.

ASSET	Governmental Activities						TOTAL
	TWO PUMPERS	FINANCIAL SOFTWARE	FIRE TRUCK	EQUIPMENT AND VEHICLES	COMPUTER AND EQUIPMENT	FOUR 2017 CHEVROLET TRUCKS	
COST	\$160,250	\$108,937	\$60,000	\$130,769	\$35,000	\$125,234	\$620,190
ACCUMULATED DEPRECIATION	100,156	68,086	0	58,583	14,000	15,654	256,479
NET ASSET	\$60,094	\$40,851	\$60,000	\$72,186	\$21,000	\$109,580	\$363,711

ASSET	SEWER PUMPS/ EQUIPMENT	EQUIPMENT AND VEHICLES	DE-WATERING UNIT	TOTAL
	COST	\$132,000	\$94,490	\$51,531
ACCUMULATED DEPRECIATION	39,600	37,796	4,123	81,519
NET ASSET	\$92,400	\$56,694	\$47,408	\$196,502

E. Long-term debt (continued)

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

Governmental Activities							
YEAR	TWO PUMPERS	FINANCIAL SOFTWARE	FIRE TRUCK	EQUIPMENT AND VEHICLES	COMPUTER AND EQUIPMENT	FOUR 2017 CHEVROLET TRUCKS	TOTAL
2018	\$19,164	\$21,096	\$9,581	\$20,932	\$7,727	\$46,311	\$124,811
2019	19,164	21,096	9,580	20,932	7,726	46,311	124,809
2020	19,164		9,580	20,932	7,726	46,311	103,713
2021	19,164					46,312	65,476
2022	19,164						19,164
2023	19,164						19,164
	114,984	42,192	28,741	62,796	23,179	185,245	457,137
INTEREST	12,492	2,678	1,865	4,248	1,802	15,245	38,330
NET	\$102,492	\$39,514	\$26,876	\$58,548	\$21,377	\$170,000	\$418,807

Business-Type Activities				
YEAR	SEWER PUMPS/ EQUIPMENT	DE- WATERING UNIT	EQUIPMENT AND VEHICLES	TOTAL
2018	\$21,806	\$6,713	\$15,125	\$43,644
2019	21,806	6,713	15,124	43,643
2020	21,806	6,713	15,125	43,644
2021	21,806	6,714	0	28,520
2022		6,714		6,714
2023				
	87,224	33,567	45,374	166,165
INTEREST	7,736	4,038	3,097	14,871
NET	\$79,488	\$29,529	\$42,277	\$151,294

E. Long-term debt (continued)

The changes in long-term liabilities are as follows:

	<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	\$2,015,750	\$0	\$49,500	\$1,966,250	\$52,250	\$1,914,000
Bond Premium	88,003		3,520	84,483		84,483
Total Bonds Payable	<u>2,103,753</u>	<u>0</u>	<u>53,020</u>	<u>2,050,733</u>	<u>52,250</u>	<u>1,998,483</u>
Capital Lease Payable	337,645	170,000	88,838	418,807	109,661	309,146
Compensated Absences	25,487	30,042	25,487	30,042	30,042	0
Total Governmental Activities:	<u>2,466,885</u>	<u>200,042</u>	<u>167,345</u>	<u>2,499,582</u>	<u>191,953</u>	<u>2,307,629</u>
<u>Business-Type Activities:</u>						
Revenue Bonds	1,649,250	1,875,000	66,500	3,457,750	72,750	3,385,000
Bond Premium	72,002		2,880	69,122		69,122
Total Bonds Payable	<u>1,721,252</u>	<u>1,875,000</u>	<u>69,380</u>	<u>3,526,872</u>	<u>72,750</u>	<u>3,454,122</u>
Capital Lease Payable	202,181		50,888	151,293	37,790	113,503
Compensated Absences	11,015	16,986	11,015	16,986	16,986	0
Total Business-Type Activities:	<u>1,934,448</u>	<u>1,891,986</u>	<u>131,283</u>	<u>3,695,151</u>	<u>127,526</u>	<u>3,567,625</u>
Grand Total	<u>\$4,401,333</u>	<u>\$2,092,028</u>	<u>\$298,628</u>	<u>\$6,194,733</u>	<u>\$319,479</u>	<u>\$5,875,254</u>

The general fund and the business type fund are used to service the compensated absences. The estimated amount due in the 2017-18 year is \$47,028. The government-wide statement of activities includes \$319,479 as "noncurrent liabilities, due within one year". There was no interest capitalized into capital assets.

F. Leases

Operating Leases

The government leases equipment under noncancellable operating leases. Total costs for such leases were \$7,681 for the year ended September 30, 2017. The future minimum lease payments for these leases are as follows:

<u>Year Ending Sept. 30</u>	<u>Amount</u>
2018	\$ 7,184
2019	7,184
2020	5,324
2021	0
Total	<u>\$ 19,692</u>

Rent expenditures were \$0 for the year ended September 30, 2017. Sublease rental income was \$0 for the year ended September 30, 2017.

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).

Changes in accrued liabilities for these claims follow:

	Year ended <u>09/30/16</u>	Year ended <u>09/30/17</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 during the year ended September 30, 2017.

C. Subsequent events

November 16, 2017 – Special Meeting - Approved authorizing the issuance of City of Poteet Tax Notes, Series 2017 in the amount of \$160,000.00 to complete the library expansion; levying an annual ad valorem tax, within the limitations prescribed by law, for the payment of obligations.

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 was not a defendant in any litigation at September 30, 2017.

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	6	6
- Inactive employees entitled to but not yet receiving benefits	35	37
- Active employees	<u>25</u>	<u>31</u>
-Total	66	74
Covered Payroll	\$ 752,625	\$ 842,961
Net Pension Liability		
Total Pension Liability	\$ 1,148,795	\$ 1,265,707
Plan Fiduciary Net Position	<u>1,351,199</u>	<u>1,456,594</u>
Net Pension Liability	\$ (202,404)	\$ (190,887)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	117.62%	115.08%
Net Pension Liability as a Percentage of Covered Payroll	(26.89%)	(22.64%)
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	\$	71,820
2. Interest on the Total Pension Liability		78,853
3. Changes in Current Period Benefits Including Substantively Automatic Status		0
4. Employee Contributions (Reduction of Expense)		(42,148)
5. Projected Earnings on Piao Investments (Reduction of Expense)		(91,206)
6. Administrative Expense		1,031
7. Other Changes in Fiduciary Net Position		56
8. Recognition of Current Year Outflow (Inflow) of Resources-Liabilities		(258)
9. Recognition of Current Year Outflow (Inflow) of Resources-Assets		(23)
10. Amortization of Prior Year Outflows (Inflows) of Resources-Liabilities		2,843
11. Amortization of Prior Year Outflows (Inflows) of Resources-Assets		22,466
12. Total Pension Expense (Income)	\$	43,434

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 pension expense	Deferred (Inflow)/Outflow in future expense
<u>Due to Liabilities:</u>				
Difference in expected and actual experience [actuarial (gains) or losses]	2.8400	\$ (733)	\$ (258)	\$ (475)
Change in assumptions [actuarial (gains) or losses]	2.8400	\$ 0	<u>\$ 0</u>	<u>\$ 0</u>
			<u>\$ (258)</u>	\$ (475)
<u>Due to Assets:</u>				
Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses]	5.0000	\$ (115)	\$ (23)	\$ (92)
			<u>\$ (23)</u>	\$ (92)
Total:				<u>\$ (567)</u>

Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future pension

B. expense as follows:

	Net deferred outflows (inflows) of resources
2017	\$ 37,484
2018	23,296
2019	19,091
2020	(23)
2021	0
Thereafter	<u>0</u>
Total	\$ 79,848

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%
\$(19,655)	\$(190,887)	\$(331,356)

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

- I. 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.

<u>Years of Service</u>	<u>Rate (%)</u>
1	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 Poteet annual annuity increases of 0.00% 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 Poteet 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	0.06970	0.0551	0.0551

Females

Age	Service									
	0	1	2	3	4	5	6	7	8	9
20	0.3030	0.2790	0.2221	0.02098	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	.01199	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 Poteet 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			Females		
	Entry Age Groups			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 to 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

- I. 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 (inflows) /outflows										
2016	2.8400	(733)	(258)	(258)	(217)	0	0	0	0	0
2015	2.0700	8,910	4,305	4,305	300	0	0	0	0	0
2014	1.0000	(12,456)	(12,456)	0	0	0	0	0	0	0
Total			\$ (8,409)	\$ 4,047	\$ 83	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
change in assumptions (inflows) /outflows										
2015	2.0700	22,758	10,994	10,994	770	0	0	0	0	0
Total			\$ 10,994	\$ 10,994	\$ 770	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Due to Assets:										
excess investment returns (inflows) /outflows										
2016	5.0000	(115)	(23)	(23)	(23)	(23)	(23)	0	0	0
2015	4.0000	76,456	19,114	19,114	19,114	19,114	0	0	0	0
2014	3.0000	10,056	3,352	3,352	3,352	0	0	0	0	0
Total			\$ 22,443	\$ 22,443	\$ 22,443	\$ 19,091	\$ (23)	\$ 0	\$ 0	\$ 0

REQUIRED SUPPLEMENTARY INFORMATION

A. Total pension liability

	2016	2015	2014
1. Service Cost	\$71,820	\$60,135	\$45,593
2. Interest (on the Total Pension Liability)	78,853	73,077	72,248
3. Changes of benefit terms	0	0	0
4. Difference between expected and actual experience	(733)	13,215	(51,216)
5. Changes of assumptions	0	33,752	0
6. Benefit payments, including refunds of employee contributions	(33,028)	(90,542)	(33,575)
7. Net change in total pension liability	116,912	89,637	33,050
8. Total pension liability -- beginning	1,148,795	1,059,158	1,026,108
9. Total pension liability - ending	1,265,707	1,148,795	1,059,158

B. Plan fiduciary net position

1. Contributions - employer	6,041	8,680	5,355
2. Contributions - employee	42,148	37,631	38,487
3. Net investment income	91,321	2,058	74,961
4. Benefit payments, including refunds of employee contributions	(33,028)	(90,542)	(33,575)
5. Administrative Expense	(1,031)	(1,253)	(783)
6. Other	(56)	(62)	(64)
7. Net change in plan fiduciary net position	105,395	(43,488)	84,381
8. Plan fiduciary net position - beginning	1,351,199	1,394,688	1,310,307
9. Plan fiduciary net position - ending*	1,456,594	1,351,200	1,394,688

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

(\$190,887)	(\$202,405)	(\$335,530)
-------------	-------------	-------------

D. Plan fiduciary net position as a percentage
of the total pension liability (B.9 / A.9)

115.08%	117.62%	131.68%
---------	---------	---------

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

\$842,961	\$752,625	\$769,743
-----------	-----------	-----------

F. Net pension liability as a percentage
of covered employee payroll (C/E)

-22.64%	-26.89%	-43.59%
---------	---------	---------

SCHEDULE OF CONTRIBUTIONS
Last 10 Fiscal Years (will ultimately be displayed)

	2014	2015	2016	2017
Actuarially Determined Contribution	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Contributions in relation to the actuarially determined contribution	<u>\$ xxx,xxx</u>	<u>\$ xxx,xxx</u>	<u>\$ xxx,xxx</u>	<u>\$ xxx,xxx</u>
Contribution deficiency (excess)	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Covered payroll	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Contributions as a percentage of covered payroll	xx.xx%	xx.xx%	xx.xx%	xx.xx%

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	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% 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.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

CITY OF POTEET, TEXAS
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

	SPECIAL REVENUE		State Forfeiture Fund	CAPITAL PROJECTS	Total
	Court Technology Fund	Court Building Security Fund		Capital Improvement Fund	
ASSETS					
Cash and Cash Equivalents	\$0	\$0	\$0	\$0	\$0
Restricted Assets:					
Cash and Cash Equivalents	116	8,979	1,401	109,822	120,318
Receivables (Net of Allowance for Uncollectibles)				6,381	6,381
Due from Other Funds			202	5,538	5,740
Total Assets	\$116	\$8,979	\$1,603	\$121,741	\$132,439
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable					\$0
Due to Other Funds	1,366	4,995			6,361
Total Liabilities	1,366	4,995	0	0	6,361
Fund Balances					
Restricted					
Court Security Fund		3,984			3,984
Court Technology					0
State Forfeiture			1,603		1,603
Committed					
Replacement				121,741	121,741
Unassigned	(1,250)				(1,250)
Total Fund Balances	(1,250)	3,984	1,603	121,741	126,078
TOTAL LIABILITIES AND FUND BALANCES	\$116	\$8,979	\$1,603	\$121,741	\$132,439

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

CITY OF POTEET, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	SPECIAL REVENUE			CAPITAL PROJECTS	
	Court Tech- nology Fund	Court Building Security Fund	State Forfei- ture Fund	Capital Improve- ment Fund	Total
<i>REVENUES</i>					
Charges for Services	\$1,264	\$971	\$600	\$33,807	\$36,642
Total Revenues	1,264	971	600	33,807	36,642
<i>EXPENDITURES</i>					
Current:					
General Administration					
General Administration				38	38
Public Safety					
Municipal Court	2,083				2,083
Police Department		6,245	637		6,882
Total Expenditures	2,083	6,245	637	38	9,003
Excess (Deficiency) of Revenues Over (Under) Expenditures	(819)	(5,274)	(37)	33,769	27,639
<i>OTHER FINANCING SOURCES (USES):</i>					
Operating Transfers Out					0
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Changes in Fund Balances	(819)	(5,274)	(37)	33,769	27,639
Fund Balances - Beginning	(431)	9,258	1,640	87,972	98,439
Fund Balances - Ending	(\$1,250)	\$3,984	\$1,603	\$121,741	\$126,078

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

SINGLE AUDIT SECTION

CITY OF POTEET, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

SOURCE AND TITLE OF GRANT	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	PASS-THROUGH TO SUBRECIPIENTS	TOTAL FEDERAL EXPEN- DITURES
FEDERAL ASSISTANCE				
NON-STIMULUS PROGRAMS				
U.S. Department of Housing and Urban Development				
Community Development Block Grants/States Program (NM)	14.228			
Passed Through				
Texas Department of Agriculture (TDA)				
Water Improvement Grant		7215400	NONE	\$120,170
Total U.S. Department of Housing and Urban Development				<u>120,170</u>
U.S. Department of Homeland Security				
Passed Through				
Hazard Mitigation Grant HMGP (NM)	97.067			
Drainage Project		DR 4223-039	NONE	42,201
Total U.S. Department of Homeland Security				<u>42,201</u>
U.S. Department of Agriculture				
Direct				
Rural Development				
Rural Utilities Service				
Water and Waste Disposal Systems for Rural Communities - Grant (M)	10.760			
Waterline Well (Grant)		06	NONE	792,974
Waterline Well (Loan)		08	NONE	1,323,724
Total U.S. Department of Agriculture				<u>2,116,698</u>
Total Federal Assistance				<u><u>\$2,279,069</u></u>

CFDA=CATALOGUE OF FEDERAL DOMESTIC ASSISTANCE NUMBER
 M=MAJOR PROGRAM
 NM=NONMAJOR PROGRAM

See Accompanying Notes to Schedule of Federal Financial Assistance

CITY OF POTEET, TEXAS
 BUDGET COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor: U.S. Department of Housing and Urban Development
 Pass Through Grantor: Texas Department of Agriculture
 CFDA Number: 14.228
 Project Number: 7215400
 Contract Period: 11/24/2014 to 11/23/2016

	FEDERAL		VARIANCE
	PRIOR YEAR	CURRENT YEAR	
BUDGET			
REVENUE			
Federal	\$275,000	\$21,000	\$120,170
TOTAL REVENUE:	275,000	21,000	120,170
EXPENSES			
Federal			
Water Improvements-Construction	208,500		99,170
Water Improvements-Engineering	30,000	6,000	9,000
Water Improvements-Acquisition	6,500		6,500
General Administration	30,000	15,000	12,000
TOTAL EXPENSES	275,000	21,000	120,170
Excess Revenue over Expenditures	\$0	\$0	\$0

Local expenditures were \$10,000 through September 30, 2017

BEYER & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Wayne R. Beyer, C.P.A.

P.O. Box 366 / 442 West Oaklawn
Pleasanton, Texas 78064
Phone: (830) 569-8781 ~ Fax: (830) 569-6776
E-mail: beyerandco@sbcglobal.net

111 North Odem
Sinton, Texas 78387

Please reply to Pleasanton address

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor and City Council
City of Poteet, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Poteet, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Poteet, Texas' basic financial statements and have issued our report thereon dated March 4, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. **2017 – 1.**

Compliance and Other Matters

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

City of Poteet, Texas' Response to Findings

The City of Poteet, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Poteet, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Wayne R. Beyer".

BEYER & COMPANY
Certified Public Accountants
March 19, 2018

BEYER & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Wayne R. Beyer, C.P.A.

P.O. Box 366 / 442 West Oaklawn
Poteet, Texas 78064
Phone: (830) 569-8781 ~ Fax: (830) 569-6776
E-mail: beyerandco@sbcglobal.net

111 North Odem
Sinton, Texas 78387

Please reply to Poteet address

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Mayor and City Council
City of Poteet, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of Poteet, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Poteet, Texas' major federal programs for the year ended September 30, 2017. The City of Poteet, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Poteet, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Poteet, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Poteet, Texas' compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Poteet, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

Report on Internal Control over Compliance

Management of the City of Poteet, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Poteet, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Poteet, Texas' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



BEYER & COMPANY
Certified Public Accountants
March 19, 2018

CITY OF POTEET, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTE A-BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Poteet, Texas under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Poteet, Texas, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Poteet, Texas.

NOTE B-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C-INDIRECT COST RATE

The City of Poteet, Texas has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D- BALANCES OF LOANS AND LOAN GUARANTEE PROGRAMS

The balance of the USDA loan at September 30, 2017 is \$1,849,000.

CITY OF POTEET, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Federal

There were no prior audit findings for Federal Awards.

CITY OF POTEET, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Poteet, Texas.
2. There was one significant deficiency disclosed during the audit described in 2017-1 below. There was no material weakness disclosed during the audit.
3. There were no instances of noncompliance material to the financial statements of the City of Poteet, Texas, which would be required to be reported in accordance with Government Auditing Standards.
4. There was no significant deficiency over major Federal award programs disclosed during the audit. There was no material weakness over major Federal award programs disclosed during the audit.
5. The auditor's report on compliance for the major Federal award programs for City of Poteet, Texas expresses an unmodified opinion on all major Federal programs.
6. There were no audit findings that are required to be reported in accordance with the Uniform Guidance.
7. The programs tested as major programs: Water and Waste Disposal Systems for Rural Communities – CFDA 10.760.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. City of Poteet did qualify as a low-risk auditee.

Findings relating to the Financial Statements

Significant Deficiencies:

2017-1 Segregation of Duties

Condition: Segregation of Duties - due to the limited number of people working in the office, many critical duties are combined and given to the available employees. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible.

Criteria: Internal controls should be in place that provides reasonable assurance that to the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible.

Effect: Because the City does not have proper segregation of duties the possibility exists that the financial statements can be materially misstated either through mistake, error, or fraud.

Cause of Condition: This condition exists because it would be impracticable and expensive for the City to have a proper segregation of duties.

Recommendation: We recommend that the City look into the possibility of dividing up the accounting, bookkeeping/cash duties and/or to institute more oversight by management so as to avoid the possibility of financial statements being materially misstated either through mistake, error, or fraud.

Response: The City is not large enough to effectuate segregation of duties; therefore, the City will implement more oversight by the City Council and by City management.

This comment was listed on the prior year's report.