

CITY OF SMITHVILLE, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2018



SINGLETON, CLARK
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

CITY OF SMITHVILLE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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FINANCIAL SECTION

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SINGLETON, CLARK & COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Members of the City Council, and Citizens of the
City of Smithville, 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 Smithville, Texas (the "City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 statements 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 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 as of September 30, 2018, and the respective changes in financial position; and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis section preceding the basic financial statements and the budgetary schedule following the basic financial statements and the pension and other post-employment benefits related schedules following the notes section 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.

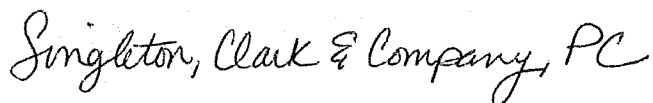
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and supplemental schedules 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 fund financial statements 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 15, 2019 on our consideration of the City's 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's internal control over financial reporting and compliance.



Singleton, Clark & Company, PC
Cedar Park, Texas

March 15, 2019

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CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Management's Discussion and Analysis

As management of the City of Smithville, Texas, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018. Please read it in conjunction with the independent auditor's report on page 1 and the City's basic financial statements which follow this section.

Financial Highlights

- At the end of the current fiscal year, the City's governmental activities (full accrual presentation) net position increased by \$1,179,113 as a result of this year's current operations to end at \$7,310,792 (including a restatement decrease of \$100,169). The assets of the business-type activities of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,231,360 as a result of this year's current operations (including a restatement decrease of \$51,602).
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,524,086, an increase of \$133,402 in comparison with the prior year. At the end of the current fiscal year, the General Fund had \$1,078,720 in spendable fund balance which represents approximately 25% of the General Fund's expenditures for the fiscal year.
- At the close of the current fiscal year, the city's proprietary fund reported a fund balance of \$5,231,360 (including a restatement decrease of \$51,602) which is a decrease of \$44,622 from the prior year.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported 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 for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Both of the government-wide financial statements distinguish functions of the City 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 include general government; public safety; highways and streets; sanitation; culture and recreation; code enforcement and inspection; cemetery; airport; and economic development and assistance. The business-type activities of the City include electricity, water, and wastewater.

The government-wide financial statements can be found on pages 17-19 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 assessing 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 maintains eighteen 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 Hazard Mitigation Grant Projects Fund. Data from the other sixteen governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City adopts an annual appropriated budget for its General Fund and Interest and Sinking Fund. A budgetary comparison statement has been provided for the General Fund on page 27 and for the Interest and Sinking Fund on page 83 to demonstrate compliance with each budget.

The basic governmental fund financial statements can be found on pages 22-25 of this report.

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Proprietary Funds. The City has the option of maintaining two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government wide financial statements. The City uses an enterprise fund to account for its utility operations - electricity, water, and wastewater. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among a City's functions. The City is not currently utilizing an internal service fund. Because the services provided by internal service funds predominantly benefit governmental rather than business-type functions, they are usually included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provides information for the Utility Fund, which is considered to be a major fund of the City. Conversely, when internal service funds are utilized, they are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are then provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The basic proprietary fund financial statements can be found on pages 28-31 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds *are* not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City maintains one fiduciary fund. The HRA Fund is used to report resources held for City employees which may be accessed for healthcare expenses.

The fiduciary fund financial statement can be found on page 33 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire 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 37-61 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City of Smithville's participation in its employee pension program and the employees other post-employment benefit program. Required supplementary information can be found on pages 64-71 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and budget to actual statement are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 74-83 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$12,542,152 at the close of the most recent fiscal year.

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

City of Smithville, Texas's Net Position

	Governmental Activities	Governmental Activities		Business- type Activities	Business- type Activities	
	2018	2017	Change	2018	2017	Change
Current & other assets	\$ 1,991,299	\$ 1,958,691	\$ 32,608	\$ 2,125,950	\$ 2,071,949	\$ 54,001
Capital assets	8,090,251	7,319,944	770,307	9,441,889	9,698,799	(256,910)
Deferred outflows	215,121	277,809	(62,688)	110,820	119,061	(8,241)
Total Assets and Deferred Outflows	10,296,671	9,556,444	740,227	11,678,659	11,889,809	(211,150)
Current liabilities	368,815	481,247	(112,432)	714,605	628,366	86,239
Long-term liabilities	2,434,894	2,816,379	(381,485)	5,638,849	5,922,301	(283,452)
Deferred inflows	182,170	26,970	155,200	93,845	11,558	82,287
Total Liabilities and Deferred Inflows	2,985,879	3,324,596	(338,717)	6,447,299	6,562,225	(114,926)
Net Position:						
Net investment in capital assets	6,102,845	5,060,598	1,042,247	4,040,444	4,021,732	18,712
Restricted	396,560	394,669	1,891	-	-	-
Unrestricted	811,387	776,581	34,806	1,190,916	1,305,852	(114,936)
Total Net Position	\$ 7,310,792	\$ 6,231,848	\$ 1,078,944	\$ 5,231,360	\$ 5,327,584	\$ (96,224)

By far, the largest portion of the City's net position approximately 81% reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position approximately 3% represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,002,303 composed of \$811,387 governmental and \$1,190,916 business-type, is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's total net position did increase by \$1,134,491 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Governmental Activities. During the current fiscal year, net position (after restatement) for governmental activities increased by \$1,179,113 from the prior fiscal year for an ending balance of \$7,310,792.

Business-type Activities. During the current fiscal year, net position (after restatement) for business-type activities decreased by \$44,622 from the prior fiscal year for an ending balance of \$5,231,360.

City of Smithville, Texas's Changes in Net Position

	Governmental Activities	Governmental Activities	Change	Business- type Activities	Business- type Activities	Change
	2018	2017		2018	2017	
Revenues:						
Program revenues:						
Charges for services	\$ 1,057,513	\$ 1,001,614	\$ 55,899	\$6,766,010	\$6,279,200	\$ 486,810
Operating grants & contributions	519,369	133,548	385,821	-	-	-
Capital grants and contributions	970,358	1,683,784	(713,426)	-	-	-
General revenues:						
Property taxes	1,363,602	1,264,911	98,691	-	-	-
Other taxes	759,531	757,271	2,260	-	-	-
Grants and contributions not restricted to specific programs	-	-	-	36,886	152,742	(115,856)
Other	432,531	275,361	157,170	152,873	139,235	13,638
Total Revenue	5,102,904	5,116,489	(13,585)	6,955,769	6,571,177	384,592
Expenses:						
General government	810,509	453,109	357,400	-	-	-
Public safety	1,443,584	1,388,027	55,557	-	-	-
Highways and streets	502,655	540,146	(37,491)	-	-	-
Sanitation	766,777	770,367	(3,590)	-	-	-
Culture and recreation	1,188,733	1,077,826	110,907	-	-	-
Code enforcement and inspections	149,513	97,735	51,778	-	-	-
Cemetery	65,109	55,056	10,053	-	-	-
Airport	80,219	65,913	14,306	-	-	-
Economic development and assist.	88,426	71,184	17,242	-	-	-
Interest on long-term debt	85,266	97,177	(11,911)	-	-	-
Utility Fund	-	-	-	5,743,391	5,705,525	37,866
Total Expenses	5,180,791	4,616,540	564,251	5,743,391	5,705,525	37,866
Increase (Decrease) in Net Position Before Transfers	(77,887)	499,949	(577,836)	1,212,378	865,652	346,726
Transfers	1,257,000	1,119,130	137,870	(1,257,000)	(1,119,130)	(137,870)
Increase (Decrease) in Net Position	1,179,113	1,619,079	(439,966)	(44,622)	(253,478)	208,856
Net Position - Beginning (as restated)	6,131,679	4,612,769	1,518,910	5,275,982	5,581,062	(305,080)
Net Position - Ending	\$ 7,310,792	\$ 6,231,848	\$ 1,078,944	\$5,231,360	\$5,327,584	\$ (96,224)

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Financial Analysis of Governmental Funds

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

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At September 30, 2018, the City's governmental funds reported combined fund balances of \$1,524,086, an increase of \$133,402 in comparison with the prior year. Approximately 71% of this amount, or \$1,078,720, constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of the fund balance is either *nonspendable, restricted, committed or assigned*.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,078,720. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 25% of total general fund expenditures, while total fund balance represents 25% of that same amount.

Proprietary Fund. The City's proprietary fund provides 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 was \$1,190,916. The fiscal year change in net position for the Utility Fund was a decrease of \$44,622.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year the City made several budget amendments, none were considered significant. Grants were amended by \$171,310. Sales tax revenue was amended by \$30,178. Licenses and permits revenue was increased by \$64,954. The City also amended the following General Fund expenditure functional areas: General Government, Code Enforcement, Culture and Recreation, Airport and Transfer Out were increased by \$88,586, \$31,745, \$68,705, \$25,566 and \$84,243 respectively; while, Public Safety, Highway and Streets, Sanitation, Cemetery and Economic Development and Assistance were decreased by \$7,238, \$77,033, \$4,574, \$15,864 and \$11,940, respectively. Overall, the General Fund's expenditures experienced a positive total variance of \$118,977.

CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of September 30, 2018, was \$8,090,251 and \$9,441,889 respectively. This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, and utility infrastructure. Overall, the City's capital assets increased from prior year for governmental activities by \$770,307 and decreased from the prior year for business-type activities year by \$256,910.

City of Smithville, Texas's Capital Assets

	Governmental Activities 2018	Governmental Activities 2017	Change
Land	\$ 664,891	\$ 664,891	\$ -
Construction in Progress	535,042	1,920,833	(1,385,791)
Buildings	5,651,791	4,196,546	1,455,245
Furniture and Equipment	2,230,697	2,132,897	97,800
Infrastructure	5,349,267	4,239,113	1,110,154
Total	14,431,688	13,154,280	1,277,408
Less Accumulated Depreciation	(6,341,437)	(5,834,336)	(507,101)
Capital Assets, Net of Depreciation	<u>\$ 8,090,251</u>	<u>\$ 7,319,944</u>	<u>\$ 770,307</u>

	Business-type Activities 2018	Business-type Activities 2017	Change
Land	\$ 174,319	\$ 174,319	\$ -
Furniture and Equipment	1,394,502	1,169,610	224,892
Infrastructure	16,193,187	16,193,187	-
Total	17,762,008	17,537,116	224,892
Less Accumulated Depreciation	(8,320,119)	(7,838,317)	(481,802)
Capital Assets, Net of Depreciation	<u>\$ 9,441,889</u>	<u>\$ 9,698,799</u>	<u>\$ (256,910)</u>

Additional information on the City's capital assets can be found in Note III.D on pages 46-47 of this report.

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CITY OF SMITHVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$4,705,000 (\$1,910,000 governmental activities and \$2,795,000 business-type activities). In addition, the City also reported total long-term liabilities for a capital lease, employee compensated absences and net pension/OPEB liabilities.

City of Smithville, Texas Outstanding Debt

	Governmental Activities 2018	Governmental Activities 2017	Change
General Refunding Bonds	\$ 1,910,000	\$ 2,210,000	\$ (300,000)
Compensated Absences	49,705	46,556	3,149
Capital Leases Payable	77,406	49,346	28,060
Total	<u>\$ 2,037,111</u>	<u>\$ 2,305,902</u>	<u>\$ (268,791)</u>
	Business-type Activities 2018	Business-type Activities 2017	Change
General Refunding Bonds	\$ 2,795,000	\$ 3,010,000	\$ (215,000)
Capital Leases Payable	2,606,445	2,667,067	(60,622)
Compensated Absences	32,486	26,458	6,028
Total	<u>\$ 5,433,931</u>	<u>\$ 5,703,525</u>	<u>\$ (269,594)</u>

The City's total bond payable decreased by \$515,000 during the current fiscal year. The primary reason for the decrease was the repayment of bond principal of \$300,000 of the General Refunding Bonds under governmental activities and repayment of \$215,000 of bond principal of General Refunding Bonds under business-type activities.

Additional information on the City's long-term debt can be found in Note III.I on pages 56-58 of this report.

Economic Factors and Next Year's Budgets and Rates

The City considered many factors when setting the fiscal year 2019 budget. The City's General Fund budget for fiscal year 2019 includes expenditures of \$4,402,116 which is a slight increase from fiscal year 2018 total adopted expenditures. The city increased the tax rate for 2018-2019 to \$0.445499 for the General Fund and to \$0.123521 for the Interest and Sinking Fund. The overall total tax rate increased to \$0.569020 per \$100 valuation.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those interested in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's business office at the City of Smithville, Texas, 317 Main Street, Smithville, Texas 78957-0449, or by calling (512) 237-3282.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF SMITHVILLE, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 529,756	\$ 605,182	\$ 1,134,938
Investments - current	735,814	652,185	1,387,999
Taxes receivable - delinquent	134,744	-	134,744
Allowance for uncollectible taxes	(13,475)	-	(13,475)
Accounts receivable, net	378,584	825,715	1,204,299
Grants receivable	-	8,016	8,016
Due from other funds	217,236	2,500	219,736
Inventories	-	16,093	16,093
Prepaid items	8,640	16,259	24,899
Capital assets, not being depreciated:			
Land	664,891	174,319	839,210
Construction in progress	535,042	-	535,042
Capital assets, being depreciated:			
Buildings and improvements	5,651,791	-	5,651,791
Machinery, equipment, and vehicles	2,230,697	1,394,502	3,625,199
Infrastructure	5,349,267	16,193,187	21,542,454
Accumulated depreciation	(6,341,437)	(8,320,119)	(14,661,556)
Total Assets	10,081,550	11,567,839	21,649,389
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	205,672	105,952	311,624
Deferred outflows - OPEB	9,449	4,868	14,317
Total Deferred Outflows of Resources	215,121	110,820	325,941
LIABILITIES			
Accounts payable	174,632	270,472	445,104
Accrued salaries and benefits	90,888	36,336	127,224
Accrued liabilities	-	16,786	16,786
Due to other funds	2,500	217,127	219,627
Accrued interest payable	22,872	73,552	96,424
Unearned revenue	65,795	50	65,845
Other current liabilities	12,128	-	12,128
Customer deposits	-	100,282	100,282
Noncurrent liabilities:			
Due within one year	350,521	466,346	816,867
Net pension liability	280,813	144,661	425,474
Net OPEB liability	116,970	60,257	177,227
Due in more than one year	1,686,590	4,967,585	6,654,175
Total Liabilities	2,803,709	6,353,454	9,157,163
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	182,170	93,845	276,015
Total Deferred Inflows of Resources	182,170	93,845	276,015
NET POSITION			
Net investment in capital assets	6,102,845	4,040,444	10,143,289
Restricted for debt service	396,560	-	396,560
Unrestricted	811,387	1,190,916	2,002,303
Total Net Position	\$ 7,310,792	\$ 5,231,360	\$ 12,542,152

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

CITY OF SMITHVILLE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 810,509	\$ 616	\$ 590	\$ -
Public safety	1,443,584	68,461	103,939	16,000
Highways and streets	502,655	675	351,005	933,300
Sanitation	766,777	826,957	-	-
Culture and recreation	1,188,733	122,781	46,488	21,058
Code enforcement and inspections	149,513	-	-	-
Cemetery	65,109	21,845	-	-
Airport	80,219	16,178	17,347	-
Economic development and assistance	88,426	-	-	-
Interest	85,266	-	-	-
Total governmental activities:	5,180,791	1,057,513	519,369	970,358
Business-type activities:				
Utility Funds	5,743,391	6,766,010	-	36,886
Total business-type activities:	5,743,391	6,766,010	-	36,886
Total primary government	\$ 10,924,182	\$ 7,823,523	\$ 519,369	\$ 1,007,244

General revenues:

Property taxes
Sales taxes
Hotel/motel taxes
Franchise taxes
Contributions and donations from private sources
Interest rate subsidy
Investment earnings
Gain on sale of capital assets
Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position -- beginning (as restated)

Net position -- ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activites	Total
\$ (809,303)	\$ -	\$ (809,303)
(1,255,184)	-	(1,255,184)
782,325	-	782,325
60,180	-	60,180
(998,406)	-	(998,406)
(149,513)	-	(149,513)
(43,264)	-	(43,264)
(46,694)	-	(46,694)
(88,426)	-	(88,426)
(85,266)	-	(85,266)
(2,633,551)	-	(2,633,551)
-	1,059,505	1,059,505
-	1,059,505	1,059,505
(2,633,551)	1,059,505	(1,574,046)
1,363,602	-	1,363,602
638,795	-	638,795
23,322	-	23,322
97,414	-	97,414
82,444	-	82,444
-	74,740	74,740
20,062	16,890	36,952
1,000	-	1,000
329,025	61,243	390,268
1,257,000	(1,257,000)	-
3,812,664	(1,104,127)	2,708,537
1,179,113	(44,622)	1,134,491
6,131,679	5,275,982	11,407,661
\$ 7,310,792	\$ 5,231,360	\$ 12,542,152

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FUND BASIS FINANCIAL STATEMENTS

CITY OF SMITHVILLE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	General	Hazard Mitigation	Total	Total
	Fund	Grant Projects	Nonmajor	Governmental
	Fund	Fund	Funds	Funds
ASSETS				
Cash and cash equivalents	\$ 462,836	\$ 16,618	\$ 50,302	\$ 529,756
Investments - current	339,315	-	396,499	735,814
Taxes receivable - delinquent	100,335	-	34,409	134,744
Allowance for uncollectible delinquent taxes	(10,034)	-	(3,441)	(13,475)
Accounts receivable	188,265	97,897	92,422	378,584
Due from other funds	352,609	11,997	-	364,606
Prepaid items	8,640	-	-	8,640
Total Assets	\$ 1,441,966	\$ 126,512	\$ 570,191	\$ 2,138,669
LIABILITIES				
Accounts payable	\$ 101,811	\$ 61,838	\$ 10,983	\$ 174,632
Accrued salaries and benefits	89,442	-	1,446	90,888
Due to other funds	11,997	48,056	89,817	149,870
Unearned revenue	48,926	16,618	251	65,795
Other current liabilities	12,128	-	-	12,128
Total Liabilities	264,304	126,512	102,497	493,313
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources-property taxes	90,302	-	30,968	121,270
Total Deferred Inflows of Resources	90,302	-	30,968	121,270
FUND BALANCES				
Nonspendable:				
Prepays	8,640	-	-	8,640
Restricted:				
Debt service	-	-	365,592	365,592
Committed:				
Specific purposes	-	-	40,227	40,227
Capital projects	-	-	30,907	30,907
Unassigned	1,078,720	-	-	1,078,720
Total Fund Balances	1,087,360	-	436,726	1,524,086
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 1,441,966	\$ 126,512	\$ 570,191	\$ 2,138,669

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

CITY OF SMITHVILLE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

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

Total fund balances - governmental funds	\$ 1,524,086
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Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.

Governmental capital assets	\$14,431,688	
Less accumulated depreciation	<u>(6,341,437)</u>	8,090,251

The net pension Liability and the Net OPEB Liability are not available resources and, therefore, are not reported in the funds.

Net pension liability, including pension deferred inflows & outflows	(257,311)	
Net OPEB liability, including OPEB deferred outflows	<u>(107,521)</u>	(364,832)

Other long-term assets, such as uncollected property taxes, are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	121,270
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds payable	(1,910,000)	
Capital leases	(77,406)	
Compensated absences	(49,705)	
Accrued interest payable	<u>(22,872)</u>	(2,059,983)

Net position of governmental activities	<u><u>\$ 7,310,792</u></u>
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The notes to the financial statements are an integral part of this statement.

CITY OF SMITHVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	General Fund	Hazard Mitigation Grant Projects Fund	Total Nonmajor Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 1,060,965	\$ -	\$ 293,488	\$ 1,354,453
Sales taxes	638,795	-	-	638,795
Hotel/motel taxes	23,322	-	-	23,322
Franchise taxes	97,414	-	-	97,414
Licenses and permits	108,764	-	-	108,764
Grants	182,086	541,072	749,979	1,473,137
Charges for services	956,405	-	-	956,405
Fines	67,097	-	-	67,097
Investment earnings	13,523	-	6,539	20,062
Contributions and donations	82,488	-	16,546	99,034
Miscellaneous revenue	239,303	-	1,881	241,184
Total Revenues	3,470,162	541,072	1,068,433	5,079,667
EXPENDITURES				
Current:				
General government	411,914	-	313,791	725,705
Public safety	1,296,611	-	-	1,296,611
Highways and streets	451,885	-	-	451,885
Sanitation	689,426	-	-	689,426
Culture and recreation	1,025,126	-	43,051	1,068,177
Code enforcement and inspections	134,356	-	-	134,356
Cemetery	58,478	-	-	58,478
Airport	72,160	-	-	72,160
Economic development and assistance	79,452	-	-	79,452
Debt service:				
Principal	30,740	-	300,000	330,740
Interest	1,690	-	86,065	87,755
Capital outlay	105,800	735,112	444,496	1,285,408
Total Expenditures	4,357,638	735,112	1,187,403	6,280,153
Excess (Deficiency) or Revenues Over (Under) Expenditures	(887,476)	(194,040)	(118,970)	(1,200,486)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,137,497	194,040	121,210	1,452,747
Transfers out	(195,250)	-	(497)	(195,747)
Sale of general capital assets	5,000	-	-	5,000
Insurance recoveries	13,088	-	-	13,088
Capital leases	58,800	-	-	58,800
Total Other Financing Sources (Uses)	1,019,135	194,040	120,713	1,333,888
Net change in fund balance	131,659	-	1,743	133,402
Fund Balance - Beginning	955,701	-	434,983	1,390,684
Fund Balance - Ending	\$ 1,087,360	\$ -	\$ 436,726	\$ 1,524,086

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

CITY OF SMITHVILLE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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

Net change in fund balances - total governmental funds	\$ 133,402
--	------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Expenditures for capitalized assets	\$ 1,281,408	
Less current year depreciation	<u>(511,101)</u>	770,307

The net effect of various miscellaneous transactions involving property taxes is to increase net position.	9,149
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The net effect of various transactions involving the City's net pension liability and net OPEB liability is to decrease net position.	(5,025)
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal repayment of general obligation debt	271,940	
Change in compensated absences payable	(3,149)	
Change in accrued interest payable	<u>2,489</u>	271,280

Change in net position - governmental activities	<u>\$ 1,179,113</u>
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The notes to the financial statements are an integral part of this statement.

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CITY OF SMITHVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Property taxes	\$ 1,077,006	\$ 1,077,006	\$ 1,060,965	\$ (16,041)
Sales taxes	607,250	637,428	638,795	1,367
Hotel/motel taxes	21,500	21,500	23,322	1,822
Franchise taxes	80,480	80,480	97,414	16,934
Licenses and permits	42,485	107,439	108,764	1,325
Grants	10,580	181,890	182,086	196
Charges for services	978,015	976,638	956,405	(20,233)
Fines	76,600	68,537	67,097	(1,440)
Investment earnings	-	-	13,523	13,523
Contributions and donations	44,450	44,450	82,488	38,038
Miscellaneous revenue	205,750	304,472	239,303	(65,169)
Total Revenues	3,144,116	3,499,840	3,470,162	(29,678)
EXPENDITURES				
Current:				
General government	340,489	429,075	411,914	17,161
Public safety	1,311,348	1,304,110	1,296,611	7,499
Code enforcement and inspections	102,611	134,356	134,356	-
Highways and streets	534,199	457,166	451,885	5,281
Sanitation	656,227	651,653	689,426	(37,773)
Culture and recreation	964,729	1,033,434	1,025,126	8,308
Cemetery	74,342	58,478	58,478	-
Airport	46,810	72,376	72,160	216
Economic development and assistance	91,329	79,389	79,452	(63)
Debt service:				
Principal	24,233	30,740	30,740	-
Interest	1,446	1,690	1,690	-
Capital outlay	37,000	84,800	105,800	(21,000)
Total Expenditures	4,184,763	4,337,267	4,357,638	(20,371)
Excess (Deficiency) or Revenues Over (Under)				
Expenditures	(1,040,647)	(837,427)	(887,476)	(50,049)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,137,000	1,137,000	1,137,497	497
Transfers out	(96,353)	(180,596)	(195,250)	(14,654)
Sale of general capital assets	-	-	5,000	5,000
Insurance recoveries	-	-	13,088	13,088
Capital lease proceeds	-	-	58,800	58,800
Total Other Financing Sources (Uses)	1,040,647	956,404	1,019,135	62,731
Net change in fund balances	-	118,977	131,659	12,682
Fund Balance - Beginning	955,701	955,701	955,701	-
Fund Balance - Ending	\$ 955,701	\$ 1,074,678	\$ 1,087,360	\$ 12,682

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

CITY OF SMITHVILLE, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-Type Activities
	Utility Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 605,182
Investments - current	652,185
Accounts receivable, net	825,715
Grants receivable	8,016
Due from other funds	2,500
Inventories	16,093
Prepaid items	16,259
Total Current Assets	<u>2,125,950</u>
Noncurrent Assets:	
Land	174,319
Infrastructure	16,193,187
Furnishings and equipment	1,394,502
Accumulated depreciation	(8,320,119)
Total Noncurrent Assets	<u>9,441,889</u>
Total Assets	<u>11,567,839</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	105,952
Deferred outflows - OPEB	4,868
Total Deferred Outflows of Resources	<u>110,820</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	270,472
Salaries and benefits payable	36,336
Accrued liabilities	16,786
Due to other funds	217,127
Accrued interest payable	73,552
Unearned revenue	50
Bonds and capital leases payable - current	466,346
Customer deposits	100,282
Total Current Liabilities	<u>1,180,951</u>
Noncurrent Liabilities:	
Bonds payable	2,570,000
Capital leases	2,365,099
Net pension liability	144,661
Net OPEB liability	60,257
Compensated absences	32,486
Total Noncurrent Liabilities	<u>5,172,503</u>
Total Liabilities	<u>6,353,454</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	93,845
Total Deferred Inflows of Resources	<u>93,845</u>
NET POSITION	
Net investment in capital assets	4,040,444
Unrestricted	1,190,916
Total Net Position	<u>\$ 5,231,360</u>

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

CITY OF SMITHVILLE, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities
	Utility Fund
OPERATING REVENUES	
Charges for Services:	
Water sales	\$ 871,832
Sewerage service	754,167
Electricity sales	4,892,819
Other charges for services	247,192
Grants	36,886
Miscellaneous revenue	61,243
Total Operating Revenues	<u>6,864,139</u>
OPERATING EXPENSES	
Personnel services	1,092,336
Purchased professional and technical services	227,924
Other purchased services	2,557,662
Other operating expenses	1,166,196
Depreciation	481,802
Total Operating Expenses	<u>5,525,920</u>
Operating Income (Loss)	<u>1,338,219</u>
NONOPERATING REVENUES (EXPENSES)	
Interest rate subsidy	74,740
Investment earnings	16,890
Interest expense	(217,471)
Transfers out	(1,257,000)
Total Nonoperating Revenues (Expenses)	<u>(1,382,841)</u>
Change in Net Position	(44,622)
Net Position-Beginning (as restated)	5,275,982
Net Position-Ending	<u>\$ 5,231,360</u>

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

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CITY OF SMITHVILLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities
	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 6,693,527
Receipt (return) of customer deposits	650
Other receipts	98,179
Payments to suppliers and service providers	(1,197,114)
Payments to employees for salaries and benefits	(1,058,296)
Payments to other funds for services provided	(2,679,859)
Net Cash Provided by (Used for) Operating Activities	1,857,087
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(1,257,000)
Net Cash Provided by (Used for) Capital and Financing Activities	(1,257,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(224,892)
Principal paid on capital debt	(275,622)
Interest paid on capital debt	(217,471)
Interest rate subsidy	74,740
Net Cash Provided by (Used for) Capital and Related Financing Activities	(643,245)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	155,458
Interest on investments	16,890
Net Cash Provided by Investing Activities	172,348
Net increase (decrease) in cash and cash equivalents	129,190
Cash and Cash Equivalents - Beginning	475,992
Cash and Cash Equivalents - Ending	\$ 605,182
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used for) Operating Activities:	
Operating Income (Loss)	\$ 1,338,219
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	481,802
(Increase) decrease in accounts receivable	(72,483)
(Increase) decrease in due from other funds	(2,500)
(Increase) decrease in inventories	(5,022)
(Increase) decrease in prepaid items	(264)
(Increase) decrease in deferred outflows	8,241
(Decrease) increase in accounts payable	(24,394)
(Decrease) increase in accrued salaries & compensated absences	8,972
(Decrease) increase in accrued items	(1,238)
(Decrease) increase in due to other funds	108,227
(Decrease) increase in unearned revenue	50
(Decrease) increase in net pension liability	(74,115)
(Decrease) increase in net OPEB liability	60,257
(Decrease) increase in deferred inflows	82,287
(Decrease) increase in beginning net position due to prior period adjustments	(51,602)
(Decrease) increase in deposits payable	650
Total adjustments	518,868
Net Cash Provided by (Used for) Operating Activities	\$ 1,857,087

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

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CITY OF SMITHVILLE, TEXAS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2018

	<u>Trust Fund</u>
	<u>HRA Fund</u>
ASSETS	
Investments	<u>\$ 70,991</u>
Total Assets	<u>70,991</u>
LIABILITIES	
Due to other funds	109
Other liabilities	<u>70,882</u>
Total Liabilities	<u>\$ 70,991</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

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CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

I. Summary of significant accounting policies

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting entity

The City of Smithville, Texas (the “City”) is a municipal corporation governed by an elected mayor and five-member governing Council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. For the year ended September 30, 2018, based on the definition of a component unit, the City did not have any component units, blended or discretely presented. Nor, is the City a component unit of any other entity.

C. Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government’s enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

D. Basis of presentation – fund financial statements

The fund financial statements provide information about the City’s funds, including its fiduciary funds and blended component units. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the City’s primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. Additionally, the City’s Capital Replacement Fund is presented as part of the General Fund.

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

I. Summary of significant accounting policies (continued)

The *Hazard Mitigation Grant Projects Fund* is a special revenue fund which is used to account for the City's hazard mitigation grants and the projects related to it.

The City reports the following major enterprise fund:

The *Utility Fund* accounts for the activities of the City's utilities-electric, water, and wastewater.

Additionally, the City reports the following fund types:

Special revenue funds account for resources restricted by the grantor or committed by the City to specific purposes. Most federal and state financial assistance is accounted for in special revenue funds, and occasionally unused balances must be returned to the grantor after project completion.

The *capital projects funds* account for the acquisition and construction of the City's major capital facilities, other than those financed by proprietary funds.

The *Interest and Sinking Fund*, a debt service fund, is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The *HRA Fund* is a fiduciary fund and is used to account for resources held in trust for employees which may be accessed for healthcare expenses.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds or advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

I. Summary of significant accounting policies (continued)

transactions or events for recognition in the financial statements. The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Budgetary information

1. Budgetary basis of accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Interest and Sinking Fund. The capital projects fund is appropriated on a project-length basis. Other special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by fund and department. The City'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 (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

I. Summary of significant accounting policies (continued)

facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

2. Excess of expenditures over appropriations

For the year ended September 30, 2018, expenditures exceeded appropriations in the City's General Fund for the sanitation function, capital outlay and transfer out by \$37,773, \$21,000 and \$14,654 respectively.

G. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and cash equivalents

The City'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.

2. Investments

Investments for the City are reported at fair value (generally based on quoted market prices) except for positions in local government investment pools when applicable. In accordance with state law, these investment pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as 2a7-like pools and are reported at the net asset value per share, which approximates fair value, even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and utility operations repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. 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 column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year.

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

I. Summary of significant accounting policies (continued)

As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation. Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings	40
Machinery and equipment	5
Vehicles	5
Improvements	7-40
Infrastructure	15-40

5. 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. 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. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Net position flow assumption

Sometimes the City 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 City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. Fund balance flow assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

I. Summary of significant accounting policies (continued)

the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The Council may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The City levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll of January 1, 2017, upon which the levy for the fiscal year 2017-2018 was based, was \$232,680,721. Taxes are delinquent if not paid by February 1st of the following calendar year. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

I. Summary of significant accounting policies (continued)

The tax rates assessed for the year ended September 30, 2018, to finance General Fund and Interest and Sinking Fund operations were \$0.416614 and \$0.122406, respectively, for a total tax rate of \$0.539020 per \$100 valuation. The total tax levy for the General Fund and Interest and Sinking Fund for the fiscal year 2017-2018 was \$1,254,671. Tax collections, including collections of prior year delinquent balances, for the year ended September 30, 2018, were 97% of the year end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates for the year of the levy. Allowances for uncollectible taxes within the General Fund and Interest and Sinking Fund are based on historical experience in collecting taxes.

3. Compensated absences

Vacation

The City's policy permits employees to accumulate up to 144 hours of earned but unused vacation benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Sick Leave

Accumulated sick leave lapses when employees leave the employment of the City and, upon separation from service, no monetary obligation exists.

4. Pensions

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

5. Proprietary funds operating and nonoperating revenues and expenses

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 are charges to customers for sales and services. The Utility Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service 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.

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

II. Stewardship, compliance and accountability

A. Violations of legal or contractual provisions

No violations of legal or contractual provisions were noted during the current year.

B. Deficit fund equity

For the year ended September 30, 2018 there were no funds reported with deficit fund equity.

III. Detailed notes on all activities and funds

A. Cash deposits with financial institutions

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2018, the City's bank balance was \$1,223,958 and none of that amount was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging or financial institution's trust department or agent, but not in the City's name.

B. Investments

The Lone Star Investment Pool (the "Pool") operates in accordance with state law, which requires it to meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. See note I.G.2, *Investments*, for a discussion of how the shares in the Pool are valued. The Pool has a credit rating of AAA from Standard & Poor's Financial Services. Local government investment pools in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. The Pool invests in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state. The City utilizes a pooled investment concept for all its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

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

Investment Type	Maturity Time in Years			
	Less than 1	1-5	6-10	More Than 10
Lone Star Investment Pool	\$ 574,517	\$ -	\$ -	\$ -
Certificates of Deposit	813,482	-	-	-
Total Investments	<u>\$ 1,387,999</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

Credit risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's policy to limit its investments in these investment types to the top rating issued by NRSROs.

Concentration of credit risk. The City's investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the City's total investments. This restriction however does not apply to government investment pools due to the low risk nature of this type of investment.

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

C. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for the general fund and the utility fund. Below is a detail of receivables for the major funds of both the governmental and proprietary funds of the City, including the applicable allowance for uncollectible accounts:

Governmental Funds

Receivables	General Fund
Sales and mixed beverage taxes	\$ 106,855
Property liens	79,124
Grants	216,046
Other	8,022
Gross receivables	410,047
Less: Allowance for uncollectibles	(31,463)
Net Receivables	<u>\$ 378,584</u>

Proprietary Funds

Receivables	Utility Fund
Utility billing	\$ 1,487,411
Less: Allowance for uncollectibles	(661,696)
Net Receivables	<u>\$ 825,715</u>

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

D. Capital assets

Capital assets activity for the City's governmental activities for the year ended September 30, 2018, was as follows:

Governmental Activities:

	Balance 10/1/17	Increases	Decreases	Adjustments	Balance 9/30/18
Capital assets, Not Being Depreciated:					
Land	\$ 664,891	\$ -	\$ -	\$ -	\$ 664,891
Construction in progress	1,920,833	473,133	-	(1,858,924)	535,042
Total Capital Assets, Not Being Depreciated	2,585,724	473,133	-	(1,858,924)	1,199,933
Capital Assets, Being Depreciated:					
Buildings and improvements	4,196,546	21,058	-	1,434,187	5,651,791
Machinery, equipment, and vehicles	2,132,897	105,800	(8,000)	-	2,230,697
Infrastructure	4,239,113	685,417	-	424,737	5,349,267
Total Capital Assets, Being Depreciated	10,568,556	812,275	(8,000)	1,858,924	13,231,755
Less Accumulated Depreciation For:					
Buildings and improvements	(3,006,216)	(178,563)	-	-	(3,184,779)
Machinery, equipment, and vehicles	(1,958,737)	(91,077)	4,000	-	(2,045,814)
Infrastructure	(869,383)	(241,461)	-	-	(1,110,844)
Total Accumulated Depreciation	(5,834,336)	(511,101)	4,000	-	(6,341,437)
Total Capital Assets Being Depreciated, Net	4,734,220	301,174	(4,000)	1,858,924	6,890,318
Governmental Activities Capital Assets, Net	\$7,319,944	\$ 774,307	\$ (4,000)	\$ -	\$8,090,251

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

Governmental Activities:

General government	\$ 81,050
Public safety	144,813
Highways and streets	50,469
Sanitation	76,999
Culture and recreation	119,300
Code enforcement and inspections	15,006
Cemetery	6,531
Airport	8,059
Economic Development & Assistance	8,874
Total Depreciation Expense - Governmental Activities	<u>\$ 511,101</u>

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

Capital assets activity for the City's business-type activities for the year ended September 30, 2018, was as follows:

Business-Type Activities:

	Balance 10/1/17	Increases	Decreases	Adjustments	Balance 9/30/18
Capital assets, Not Being Depreciated:					
Land	\$ 174,319	\$ -	\$ -	\$ -	\$ 174,319
Total Capital Assets, Not Being Depreciated	174,319	-	-	-	174,319
Capital Assets, Being Depreciated:					
Machinery, equipment, and vehicles	1,169,610	224,892	-	-	1,394,502
Infrastructure	16,193,187	-	-	-	16,193,187
Total Capital Assets, Being Depreciated	17,362,797	224,892	-	-	17,587,689
Less Accumulated Depreciation For:					
Machinery, equipment, and vehicles	(892,139)	(86,484)	-	-	(978,623)
Infrastructure	(6,946,178)	(395,318)	-	-	(7,341,496)
Total Accumulated Depreciation	(7,838,317)	(481,802)	-	-	(8,320,119)
Total Capital Assets Being Depreciated, Net	9,524,480	(256,910)	-	-	9,267,570
Business-type Activities Capital Assets, Net	\$9,698,799	\$ (256,910)	\$ -	\$ -	\$9,441,889

E. Defined benefit pension plans

Plan Description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	32
Inactive employees entitled to but not yet receiving benefits	61
Active employees	62
	<u>155</u>

Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Smithville were 6.74% and 7.03% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$168,019, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

Actuarial Assumptions

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by a factor of 95%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Table 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 is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
	<u>100%</u>	

Discount Rate

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance as of December 31, 2016	\$ 5,578,264	\$ 4,849,011	\$ 729,253
Changes for the year:			
Service cost	234,022	-	234,022
Interest	377,443	-	377,443
Change of benefit terms	-	-	-
Difference between expected and actual experience	26,295	-	26,295
Changes of assumptions	-	-	-
Contributions - employer	-	154,591	(154,591)
Contributions - employee	-	118,552	(118,552)
Net investment income	-	672,056	(672,056)
Benefit payments, including refunds of employee contr.	(207,054)	(207,054)	-
Administrative expense	-	(3,483)	3,483
Other changes	-	(177)	177
Net changes	430,706	734,485	(303,779)
Balance as of December 31, 2017	\$ 6,008,970	\$ 5,583,496	\$ 425,474

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

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

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

	1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
City's net pension liability	\$ 1,307,228	\$ 425,474	\$ (293,065)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2017, the city recognized pension expense of (\$2,327).

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 50,941	\$ -
Difference in assumptions	4,590	-
Net difference between projected and actual investment earnings	133,123	276,015
Contributions subsequent to the measurement date	122,970	-
Total	\$ 311,624	\$ 276,015

\$311,624 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended Dec 31,	Net Deferred Outflows (Inflows) of Resources
2018	\$ 40,220
2019	7,712
2020	(66,345)
2021	(68,948)
2022	-
Thereafter	-
Total	\$ (87,361)

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

F. Other Post-Employment Benefit (OPEB) Obligations

Benefits Provided

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

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

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to but not yet receiving benefits	10
Active employees	62
	<u>97</u>

Contributions

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

The City's contributions to the TMRS SDBF for the years September 30, 2017 and 2018 were \$5,171 and \$5,493 respectively, which equaled the required contributions each year.

Plan Assets

At the December 31, 2017 valuation and measurement date, there are no assets accumulated in trust.

Actuarial Assumptions

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.5%-10.5% including inflation per year
Discount rate	3.31% based on Fidelity Index's 20-year Municipal GO AA Index
Retirees' share of benefit costs	\$0

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB No. 68. Mortality rates for service retirees are calculated using the 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; while the mortality rate for disabled retirees are calculated using the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females and projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor. The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Schedule of Changes in the Total OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance as of December 31, 2016	\$ 151,771	\$ -	\$ 151,771
Changes for the year:			
Service cost	7,824	-	7,824
Interest	5,862	-	5,862
Change of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions	12,956	-	12,956
Contributions - employer	-	-	-
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments, including refunds of employee contr.	(1,186)	-	(1,186)
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	25,456	-	25,456
Balance as of December 31, 2017	\$ 177,227	\$ -	\$ 177,227

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

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

	1% Decrease in Discount Rate 2.31%	Current Discount Rate 3.31%	1% Increase in Discount Rate 4.31%
City's Net OPEB Liability	\$ 210,411	\$ 177,227	\$ 151,376

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the city recognized OPEB expense of \$7,352.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions and other inputs	10,344	-
Contributions subsequent to the measurement date	3,973	-
Total	\$ 14,317	\$ -

Deferred outflows of resources related to OPEB in the amount of \$14,317 resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in OPEB expense as follows:

Year Ended Dec 31,	Net Deferred Outflows (Inflows) of Resources
2018	\$ 2,612
2019	2,612
2020	2,612
2021	2,508
2022	-
Thereafter	-
Total	\$ 10,344

G. Risk management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the year, the City purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and no settlements exceeding insurance coverage for each of the past three fiscal years.

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

H. Lease obligations

Capital lease

The City has a capital lease to finance the acquisition of three vehicles for the police department and for other equipment financing. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2018, were as follows:

Year Ending September 30	Governmental Activities
2019	\$ 39,179
2020	13,502
2021	13,501
2022	13,502
2023	6,751
Total Minimum Lease Payments	86,435
Less: Amount Representing Interest	(9,029)
Present Value of Minimum Lease Payments	\$ 77,406

The City has three capital leases for acquisition of equipment for business-type activities. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2018, were as follows:

Year Ending September 30	Business - type Activities				
	Digger	Jet Machine	QECB	Dump Truck	Total
2019	\$ 37,426	\$ 11,692	\$ 247,881	\$ 38,729	\$ 335,728
2020	37,426	11,693	245,482	38,729	333,330
2021	-	-	216,398	38,730	255,128
2022	-	-	241,274	38,730	280,004
2023	-	-	238,677	-	238,677
2024-2028	-	-	1,150,783	-	1,150,783
2029-2031	-	-	649,129	-	649,129
Total Minimum Lease Payments	74,852	23,385	2,989,624	154,918	3,242,779
Less: Amount Representing Interest	(3,960)	(1,224)	(618,176)	(12,974)	(636,334)
Present Value of Minimum Lease Payments	\$ 70,892	\$ 22,161	\$ 2,371,448	\$ 141,944	\$ 2,606,445

The city's capital lease for purchase of smart meters through Qualified Energy Conservation Bond (QCEB) earned the city an interest rate subsidy of \$74,740 during the year.

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

I. Long-term liabilities

General Obligation Bonds

The City issues general obligation bonds and certificates of obligation to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and certificates of obligation have been issued for both governmental and business-type activities. These long-term debt instruments are direct obligations and pledge the full faith and credit of the government. General obligation bonds and certificates of obligation generally are issued with repayment scheduled to occur as equal amounts of principal maturing each year with maturities that range from 5 to 20 years.

Details of long-term debt obligations outstanding at September 30, 2018 are as follows:

Governmental Activities:

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/18
Bonds Payable					
General Refunding Bonds, Series 2009	2009	\$ 2,210,000	2.50-4.75%	2024	\$ 1,305,000
General Refunding Bonds, Series 2005	2005	2,555,000	3.90%	2021	605,000
Total Bonds Payable					<u>\$ 1,910,000</u>
Capital Leases Payable					
Capital Lease - Vehicles	2015	\$ 117,750	3.70%	2019	\$ 25,113
Capital Lease - Wood Chipper	2018	58,800	5.19%	2023	52,293
Total Capital Leases Payable					<u>\$ 77,406</u>

Business-type Activities:

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/18
Bonds Payable					
General Refunding Bonds, Series 2007	2007	\$ 4,500,000	4.20%	2028	\$ 2,795,000
Total General Obligation Bonds					<u>\$ 2,795,000</u>
Capital Leases Payable					
Capital Lease Digger Truck	2016	\$ 174,240	3.70%	2019	\$ 70,892
Capital Lease Jet Machine	2016	52,000	4.70%	2020	22,161
Capital Lease Dump Truck & Pump	2018	178,906	3.59%	2022	141,944
Capital Lease QECB	2016	2,661,148	3.68%	2031	2,371,448
Total Capital Leases Payable					<u>\$ 2,606,445</u>

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

Changes in long-term liabilities

Changes in the City's long-term liabilities for the year ended September 30, 2018 are as follows:

Governmental Activities:

Description	Balance 10/1/17	Additions	Deletions	Balance 9/30/18	Due in One Year
Bonds Payable					
General refunding bonds	\$2,210,000	\$ -	\$ (300,000)	\$ 1,910,000	\$ 315,000
Total Bonds Payable	2,210,000	-	(300,000)	1,910,000	315,000
Capital Leases Payable					
Capital lease	49,346	58,800	(30,740)	77,406	35,521
Total Capital Leases Payable	49,346	58,800	(30,740)	77,406	35,521
Other Long-term Liabilities					
Compensated absences	46,556	3,149	-	49,705	-
Total Other Long-term Liabilities Payable	46,556	3,149	-	49,705	-
Governmental Activities Long-term Liabilities	\$2,305,902	\$ 61,949	\$ (330,740)	\$ 2,037,111	\$ 350,521

Description	Balance 10/1/17	Additions	Deletions	Balance 9/30/18	Due in One Year
Bonds Payable					
General refunding bonds	\$3,010,000	\$ -	\$ (215,000)	\$ 2,795,000	\$ 225,000
Total Bonds Payable	3,010,000	-	(215,000)	2,795,000	225,000
Capital Leases Payable					
Capital lease equipment	104,452	-	(33,560)	70,892	34,802
Capital lease equipment	32,467	-	(10,306)	22,161	10,814
Capital lease equipment	-	178,906	(36,962)	141,944	33,630
Capital lease QECB	2,530,148	-	(158,700)	2,371,448	162,100
Total Capital Leases Payable	2,667,067	178,906	(239,528)	2,606,445	241,346
Other Long-term Liabilities					
Compensated absences	26,458	6,028	-	32,486	-
Total Other Long-term Liabilities Payable	26,458	6,028	-	32,486	-
Business-type Activities Long-term Liabilities	\$5,703,525	\$ 184,934	\$ (454,528)	\$ 5,433,931	\$ 466,346

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

The debt service requirements for the City's bonds are as follows:

Governmental Activities

Year Ended September 30,	Governmental Activities	
	Bonds Payable	
	Principal	Interest
2019	\$ 315,000	\$ 74,243
2020	335,000	61,440
2021	345,000	48,045
2022	290,000	35,088
2023	305,000	22,063
2024	320,000	7,600
Totals	\$ 1,910,000	\$ 248,479

Business-type Activities

Year Ended September 30,	Business-Type Activities	
	Bonds Payable	
	Principal	Interest
2019	\$ 225,000	\$ 112,665
2020	235,000	103,005
2021	250,000	92,820
2022	260,000	82,110
2023	270,000	70,980
2024-2028	1,555,000	169,155
Totals	\$ 2,795,000	\$ 630,735

J. Interfund receivables and payables

The composition of interfund balances as of September 30, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Non- major Special Revenue Fund	\$ 87,317
General Fund	HMGP Fund	48,056
General Fund	Trust Fund	109
General Fund	Utility Fund	217,127
HMGP Fund	General Fund	11,997
Utility Fund	Special Revenue Fund	2,500
Total		<u>\$ 367,106</u>

CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. These amounts also include balances of working capital loans made to several nonmajor governmental funds which the general fund expects to collect in the subsequent year.

K. Interfund transfers

The composition of interfund transfers for the year ended September 30, 2018 was as follows:

	Transfer in to:				Total
	Governmental Funds			Enterprise Funds	
Transfer out from:	General Fund	HMGP Fund	Nonmajor Gov. Funds	Utility Fund	
General Fund	\$ -	\$ 194,040	\$ 1,210	\$ -	\$ 195,250
Nonmajor Govt. Funds	497	-	-	-	497
Utility WWTP Sewer CO 2007	1,137,000	-	120,000	-	1,257,000
Total	<u>\$ 1,137,497</u>	<u>\$ 194,040</u>	<u>\$ 121,210</u>	<u>\$ -</u>	<u>\$ 1,452,747</u>

During the year, recurring transfers are used to 1) move revenues from a fund with collection authority to another fund with related expenditure requirements, 2) move general fund resources to provide subsidies to other funds as needs arise, and 3) move resources from the utility fund to the general fund to subsidize governmental activities.

L. Contingencies

The City was not involved in any litigation at year-end that the City's attorney feels would result in a negative outcome or present any material liability to the City.

M. Subsequent events

The City issued General Obligation Refunding Bonds, Series 2018, amounting to \$1,200,000 after the financial year end on November 30, 2018. The bond proceeds refunded General Obligation Refunding Bonds, Series 2009.

The City also issued Combination Tax and Limited Pledge Revenues Certificates of Obligation, Series 2019 amounting to \$2,975,000 on December 15, 2018 for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes like constructing street improvements (including Utilities repair, replacement, and relocation, curbs, gutters, and sidewalk improvements, including drainage incidental thereto; constructing, acquiring, purchasing, renovating, enlarging, and improving the City's utility system; constructing storm water, culvert, ditch, and related drainage improvements.

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CITY OF SMITHVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

III. Detailed notes on all activities and funds (continued)

N. Restatement of Net Position

During the year, the City implemented Governmental Accounting Standards Board Statement No. 75 – *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions* (GASB 75). The primary objective of GASB 75 is to improve the accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits, or OPEB).

In the year of implementation, GASB 75 requires a retroactive restatement of prior periods to reflect the effect on net position as if the standard had been in effect in prior years. As such, the effect on beginning net position as shown within these financial statements is as follows:

	Governmental Activities	Business-type Activities
Net position as previously stated at September 30, 2017	\$ 6,231,848	\$ 5,327,584
Effect of restatement of net position due to implementation of GASB 75	(100,169)	(51,602)
Net position as restated at September 30, 2017	<u>\$ 6,131,679</u>	<u>\$ 5,275,982</u>

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SMITHVILLE, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Measurement Year			
	2014	2015	2016	2017
A. Total Pension Liability				
1. Service cost	\$ 171,454	\$ 197,338	\$ 214,184	\$ 234,022
2. Interest (on the Total Pension Liability)	326,676	331,919	347,256	377,443
3. Changes of benefit terms	-	-	-	-
4. Difference between expected and actual experience	(262,383)	24,762	73,787	26,295
5. Changes of assumptions	-	40,818	-	-
6. Benefit payments, including refunds of employee cont.	(135,516)	(212,038)	(188,818)	(207,054)
7. Net Change in Total Pension Liability	100,231	382,799	446,409	430,706
8. Total Pension Liability - Beginning	4,648,825	4,749,056	5,131,855	5,578,264
9. Total Pension Liability - Ending	<u>\$ 4,749,056</u>	<u>\$ 5,131,855</u>	<u>\$ 5,578,264</u>	<u>\$ 6,008,970</u>
B. Plan Fiduciary Net Position				
1. Contributions - employer	\$ 29,724	\$ 142,066	\$ 129,248	\$ 154,591
2. Contributions - employee	99,355	105,079	108,613	118,552
3. Net investment income	241,945	6,584	304,080	672,056
4. Benefit payments, including refunds of employee cont.	(135,516)	(212,038)	(188,818)	(207,054)
5. Administrative expense	(2,526)	(4,010)	(3,434)	(3,483)
6. Other	(208)	(198)	(185)	(177)
7. Net Change in Plan Fiduciary Net Position	232,774	37,483	349,504	734,485
8. Plan Fiduciary Net Position - Beginning	4,229,250	4,462,024	4,499,507	4,849,011
9. Plan Fiduciary Net Position - Ending	<u>\$ 4,462,024</u>	<u>\$ 4,499,507</u>	<u>\$ 4,849,011</u>	<u>\$ 5,583,496</u>
C. Net Pension Liability [A.9 - B.9]	<u>\$ 287,032</u>	<u>\$ 632,348</u>	<u>\$ 729,253</u>	<u>\$ 425,474</u>
D. Plan Fiduciary Net Position as a % of the Total Pension Liability [B.9 / A.9]	93.96%	87.68%	86.93%	92.92%
E. Covered-Employee Payroll	\$ 1,987,091	\$ 2,101,573	\$ 2,172,253	\$ 2,371,040
F. Net Position as a Percentage of Covered Employee Payroll [C / E]	14.44%	30.09%	33.57%	17.94%

CITY OF SMITHVILLE, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
NET PENSION LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Fiscal Year			
	2015	2016	2017	2018
Actuarially Determined Contribution	\$ 138,556	\$ 132,289	\$ 147,681	\$ 168,019
Contributions in relation to the actuarially determined cont.	(138,556)	(132,289)	(147,681)	(168,019)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 2,049,642	\$ 2,140,771	\$ 2,321,089	\$ 2,496,669
Contributions as a percentage of covered employee payroll	6.8%	6.2%	6.4%	6.7%

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CITY OF SMITHVILLE, TEXAS
NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS
NET PENSION LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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	28 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.

CITY OF SMITHVILLE, TEXAS
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Measurement Year</u> <u>2017</u>
A. Total Pension Liability	
1. Service cost	\$ 7,824
2. Interest (on the Total Pension Liability)	5,862
3. Changes of benefit terms	-
4. Difference between expected and actual experience	-
5. Changes of assumptions or other inputs	12,956
6. Benefit payments	<u>(1,186)</u>
7. Net changes	25,456
8. Total OPEB liability - beginning of the year	<u>151,771</u>
9. Total OPEB liability - end of the year	<u><u>\$ 177,227</u></u>
 E. Covered-Employee Payroll	 \$ 2,371,040
 F. Net Position as a Percentage of Covered Employee Payroll [C / E]	 7.47%

CITY OF SMITHVILLE, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
NET OPEB LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Fiscal Year	
	2017	2018
Actuarially Determined Contribution	\$ 5,171	\$ 5,493
Contributions in relation to the actuarially determined contribution	(5,171)	(5,493)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered employee payroll	\$ 2,321,089	\$ 2,496,669
Contributions as a percentage of covered employee payroll	0.22%	0.22%

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CITY OF SMITHVILLE, TEXAS
NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS
NET OPEB LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Summary of Actuarial Assumptions:

Inflation	2.5%
Salary increases	3.50% to 10.5%; including inflation
Discount rate*	3.31%
Retirees' share of benefit-related costs	\$0
Administrative expenses	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 rates - service retirees	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.
Mortality rates - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Other Information:

Notes	<p>*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.</p> <p>The Actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.</p>
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Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenue sources that are restricted, committed, or assigned to expenditures for particular purposes.

The *Railroad Park Fund* is used to account for park operations and activities.

The *Police Seized Asset Fund* is used to account for all the assets seized by the police department.

The *Skate Park Fund* was used to account for construction of the City's skate park. It currently has residual funds related to the park's construction.

The *2009 TXCDBG Project Fund* was used to account for the administration of the City's Community Development Block Grant. It currently has immaterial residual funds related to the grant.

The *HOMES Project Fund* is used to account for the City's HOMES grant.

The *Rec Center GLO Expansion Grant* is used to account for a grant for construction and expansion of the City's Recreation Center.

The *TAP Loop 230 Sidewalk* is used to account for the construction and expansion of the Loop 230 sidewalks.

The *Cops Hiring Grant Fund* is used to account for the City's Cops Hiring grant.

The *Grant and Donation Fund* is used to account for the donations received by the city for a particular purpose.

The *Veterans Memorial Park Fund* is used to account for park operations and activities.

The *Smithville Cares Fund* is used to account for operations and activities of the City's Smithville Cares program.

The *PEG Capital Fee Fund* is used to account for specific City fees and franchise taxes.

The *Airport Fly-In Fund* is used to account for certain airport related activities.

The *Independence Park Fund* is used to account for park operations and activities.

Debt Service Fund

The *Interest & Sinking Fund*, also referred to as the debt service fund, is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of the City's governmental funds.

Capital Projects Funds

The *Bonds Projects Fund* is used to account for the acquisition and construction of the City's major capital facilities and projects financed through debt issuance, other than those financed by proprietary funds.

CITY OF SMITHVILLE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue Funds			
	Railroad Park	Police Seized Asset Fund	Skate Park	2009 TXCDBG Project
ASSETS				
Cash and cash equivalents	\$ 1,837	\$ 2,400	\$ -	\$ 61
Investments - current	-	-	-	-
Taxes receivable - delinquent	-	-	-	-
Allowance for uncoll. taxes	-	-	-	-
Accounts receivable	-	-	-	10,000
Total Assets	<u>\$ 1,837</u>	<u>\$ 2,400</u>	<u>\$ -</u>	<u>\$ 10,061</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 7,500
Accrued salaries and benefits	-	-	-	-
Due to other funds	-	-	-	2,500
Unearned revenue	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources-property taxes	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted for:				
Debt service	-	-	-	-
Committed for:				
Specific purposes	1,837	2,400	-	61
Capital projects	-	-	-	-
Total Fund Balances	<u>1,837</u>	<u>2,400</u>	<u>-</u>	<u>61</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 1,837</u>	<u>\$ 2,400</u>	<u>\$ -</u>	<u>\$ 10,061</u>

Special Revenue Funds

HOMES Project	Rec Center GLO Expansion Grant	TAP Loop 230 Sidewalk	Cops Hiring Grant	Grant and Donation Fund	Veterans Memorial Park	Smithville Cares
\$ 201	\$ -	\$ -	\$ 9,824	\$ 251	\$ 3,260	\$ 3,587
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	35,591	9,682	37,149	-	-
<u>\$ 201</u>	<u>\$ -</u>	<u>\$ 35,591</u>	<u>\$ 19,506</u>	<u>\$ 37,400</u>	<u>\$ 3,260</u>	<u>\$ 3,587</u>
\$ -	\$ -	\$ 2,000	\$ -	\$ 1,483	\$ -	\$ -
-	-	-	1,446	-	-	-
-	-	33,591	18,060	35,666	-	-
-	-	-	-	251	-	-
-	-	35,591	19,506	37,400	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
201	-	-	-	-	3,260	3,587
-	-	-	-	-	-	-
<u>201</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,260</u>	<u>3,587</u>
<u>\$ 201</u>	<u>\$ -</u>	<u>\$ 35,591</u>	<u>\$ 19,506</u>	<u>\$ 37,400</u>	<u>\$ 3,260</u>	<u>\$ 3,587</u>

CITY OF SMITHVILLE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue Funds			Debt Service Fund
	PEG Capital Fee	Airport Fly-In	Independence Park	Interest & Sinking Fund
ASSETS				
Cash and cash equivalents	\$ 17,458	\$ 5,734	\$ 5,689	\$ -
Investments - current	-	-	-	365,592
Taxes receivable - delinquent	-	-	-	34,409
Allowance for uncoll. taxes	-	-	-	(3,441)
Accounts receivable	-	-	-	-
Total Assets	<u>\$ 17,458</u>	<u>\$ 5,734</u>	<u>\$ 5,689</u>	<u>\$ 396,560</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued salaries and benefits	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources-property taxes	-	-	-	30,968
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,968</u>
FUND BALANCES				
Restricted for:				
Debt service	-	-	-	365,592
Committed for:				
Specific purposes	17,458	5,734	5,689	-
Capital projects	-	-	-	-
Total Fund Balances	<u>17,458</u>	<u>5,734</u>	<u>5,689</u>	<u>365,592</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 17,458</u>	<u>\$ 5,734</u>	<u>\$ 5,689</u>	<u>\$ 396,560</u>

Capital Projects Fund		Total Non- Major Governmental Funds	
Bonds Projects			
\$	-	\$	50,302
	30,907		396,499
	-		34,409
	-		(3,441)
	-		92,422
<u>\$</u>	<u>30,907</u>	<u>\$</u>	<u>570,191</u>
\$	-	\$	10,983
	-		1,446
	-		89,817
	-		251
<u>-</u>		<u>102,497</u>	
<u>-</u>		<u>30,968</u>	
<u>-</u>		<u>30,968</u>	
	-		365,592
	-		40,227
<u>30,907</u>		<u>30,907</u>	
<u>30,907</u>		<u>436,726</u>	
<u>\$</u>	<u>30,907</u>	<u>\$</u>	<u>570,191</u>

CITY OF SMITHVILLE, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue Funds			
	Railroad Park	Police Seized Asset Fund	Skate Park	2009 TXCDBG Project
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Grants and contributions	-	-	-	10,000
Investment earnings	42	38	8	-
Contributions from private sources	613	-	-	-
Miscellaneous revenue	-	418	-	-
Total Revenues	655	456	8	10,000
EXPENDITURES				
Current:				
General government	-	-	-	-
Culture and recreation	6,146	-	-	-
Debt service:				
Bond principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	-	40,000
Total Expenditures	6,146	-	-	40,000
Excess (Deficiency) of Revenues Over Expenditures	(5,491)	456	8	(30,000)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	30,000
Total Other Financing Sources (Uses)	-	-	(497)	30,000
Net change in fund balance	(5,491)	456	(489)	-
Fund Balance - Beginning	7,328	1,944	489	61
Fund Balance - Ending	\$ 1,837	\$ 2,400	\$ -	\$ 61

Special Revenue Funds

HOMES Project	Rec Center GLO Expansion Grant	TAP Loop 230 Sidewalk	Cops Hiring Grant	Grant and Donation Fund	Veterans Memorial Park	Smithville Cares
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
195,075	21,058	382,228	36,730	104,888	-	-
-	-	-	-	-	35	65
-	-	-	-	12,365	1,975	-
-	-	-	-	1,463	-	-
195,075	21,058	382,228	36,730	118,716	2,010	65
195,075	-	-	-	118,716	-	-
-	-	-	36,730	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	21,058	383,438	-	-	-	-
195,075	21,058	383,438	36,730	118,716	-	-
-	-	(1,210)	-	-	2,010	65
-	-	1,210	-	-	-	-
-	-	1,210	-	-	-	-
-	-	-	-	-	2,010	65
201	-	-	-	-	1,250	3,522
\$ 201	\$ -	\$ -	\$ -	\$ -	\$ 3,260	\$ 3,587

CITY OF SMITHVILLE, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue Funds			Debt Service Fund
	PEG Capital Fee	Airport Fly-In	Independence Park	Interest & Sinking Fund
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ 293,488
Grants and contributions	-	-	-	-
Investment earnings	316	89	102	5,292
Contributions from private sources	-	1,593	-	-
Miscellaneous revenue	-	-	-	-
Total Revenues	316	1,682	102	298,780
EXPENDITURES				
Current:				
General government	-	-	-	-
Culture and recreation	-	175	-	-
Debt service:				
Bond principal	-	-	-	300,000
Interest	-	-	-	86,065
Capital outlay	-	-	-	-
Total Expenditures	-	175	-	386,065
Excess (Deficiency) of Revenues Over Expenditures	316	1,507	102	(87,285)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	90,000
Total Other Financing Sources (Uses)	-	-	-	90,000
Net change in fund balance	316	1,507	102	2,715
Fund Balance - Beginning	17,142	4,227	5,587	362,877
Fund Balance - Ending	\$ 17,458	\$ 5,734	\$ 5,689	\$ 365,592

Capital Projects Fund		Total Non- Major Governmental Funds	
Bonds Projects			
\$	-	\$	293,488
	-		749,979
	552		6,539
	-		16,546
	-		1,881
	552		1,068,433
	-		313,791
	-		43,051
	-		300,000
	-		86,065
	-		444,496
	-		1,187,403
	552		(118,970)
	-		121,210
	-		120,713
	552		1,743
	30,355		434,983
\$	30,907	\$	436,726

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CITY OF SMITHVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL – INTEREST AND SINKING FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Property taxes	\$ 296,065	\$ 296,065	\$ 293,488	\$ (2,577)
Investment earnings	-	-	5,292	5,292
Total Revenues	296,065	296,065	298,780	2,715
EXPENDITURES				
Debt service:				
Bond principal	300,000	300,000	300,000	-
Interest	86,065	86,065	86,065	-
Total Expenditures	386,065	386,065	386,065	-
Excess (Deficiency) of Revenues Over Expenditures	(90,000)	(90,000)	(87,285)	2,715
OTHER FINANCING SOURCES (USES)				
Transfers in	90,000	90,000	90,000	-
Total other financing sources (uses)	90,000	90,000	90,000	-
Net change in fund balances	-	-	2,715	2,715
Fund Balance - Beginning	362,877	362,877	362,877	-
Fund Balance - Ending	\$ 362,877	\$ 362,877	\$ 365,592	\$ 2,715

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OTHER REPORTING SECTION

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SINGLETON, CLARK
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

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

Honorable Mayor, Members of the City Council, and Citizens of the
City of Smithville, 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 Smithville, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 15, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

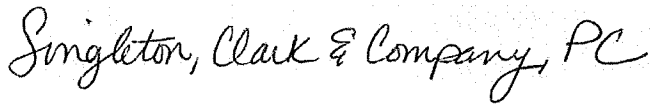
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Item 2018-001.

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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 "Singleton, Clark & Company, PC".

Singleton, Clark & Company, PC
Cedar Park, Texas

March 15, 2019

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SINGLETON, CLARK & COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL FOR EACH MAJOR PROGRAM AS REQUIRED BY UNIFORM GUIDANCE AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Honorable Mayor, Members of the City Council, and Citizens of the
City of Smithville, Texas:

Report on Compliance for Each Major Federal Program

We have audited the City of Smithville, Texas's 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 Smithville, Texas's major federal programs for the year ended September 30, 2018. The City of Smithville, Texas's 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Smithville, Texas's 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 City of Smithville, Texas's 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 City of Smithville, Texas's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Smithville, 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, 2018.

Report on Internal Control Over Compliance

Management of City of Smithville, 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 City of Smithville, Texas's 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 federal 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 City of Smithville, Texas's internal control over compliance.

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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.

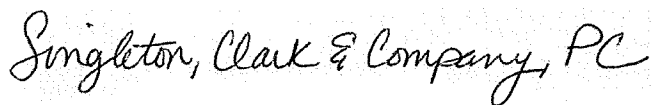
A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected 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.

Report on Schedule of Expenditures of Federal Awards Required by *Uniform Guidance*

We have audited the financial statements of City of Smithville, Texas as of and for the year ended September 30, 2018, and have issued our report thereon dated March 15, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Singleton, Clark & Company, PC
Cedar Park, Texas

March 15, 2019

CITY OF SMITHVILLE, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
<u>Pass-Through Program Texas Department of Housing & Community Affairs</u>			
Home Investment Partnerships Program	14.239	Multiple	\$ 195,075
Total Passed through Texas Department of Housing & Community Affairs			<u>195,075</u>
<u>Pass-Through Program Texas Department of Agriculture</u>			
Community Development Block Grant	14.228	7217439	10,000
Total Passed through Texas Department of Agriculture			<u>10,000</u>
<u>Pass-Through Program Texas General Land Office</u>			
Community Development Block Grant	14.228	13-353-000-7707	21,058
Total Passed through Texas General Land Office			<u>21,058</u>
TOTAL U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			<u>226,133</u>
FEDERAL HIGHWAY ADMINISTRATION			
<u>Pass-Through Program Texas Department of Transportation</u>			
Highway Planning and Construction	20.205	0265-13-022	382,228
Total Passed through Texas Department of Transportation			<u>382,228</u>
TOTAL FEDERAL HIGHWAY ADMINISTRATION			<u>382,228</u>
U.S. DEPARTMENT OF JUSTICE			
<u>Pass-Through Texas Office of the Governor - Criminal Justice Division</u>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	3356401	31,112
Juvenile Justice and Delinquency Prevention	16.540	3092401	15,440
Public Partnership and Community Policing Grants	16.710	2015UMWX0119	36,730
Total Passed through Texas Office of the Governor - Criminal Justice Division			<u>83,282</u>
<u>Pass-Through Texas Bureau of Justice Assistance</u>			
The Bulletproof Vest Partnership Program	16.607	2017BUBX17088823	1,469
Total Passed through Texas Bureau of Justice Assistance			<u>1,469</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>84,751</u>
NATIONAL ENDOWMENT FOR THE ARTS			
NEA Our Town	45.024	17-4292-7119	37,149
TOTAL NATIONAL ENDOWMENT FOR THE ARTS			<u>37,149</u>

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
<u>Pass-Through Program Texas State Library & Archives Commission</u>			
ILL Lending Reimbursement Program	45.310	Multiple	2,460
Total Passed through Texas State Library & Archives Commission			2,460
TOTAL INSTITUTE OF MUSEUM AND LIBRARY SERVICES			2,460
U.S. DEPARTMENT OF HOMELAND SECURITY			
<u>Pass-Through Program Texas Division of Emergency Management</u>			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Multiple	192,815
Hazard Mitigation Grant (HMGP)	97.039	Multiple	541,072
Total Passed through Texas Division of Emergency Management			733,887
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			733,887
U.S. GENERAL SERVICES ADMINISTRATION			
<u>Pass-Through Program Texas Facilities Commission</u>			
Donation of Federal Surplus Property	39.003	N/A	590
Total Noncash Passed through Texas Facilities Commission			590
TOTAL U.S. GENERAL SERVICES ADMINISTRATION			590
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,467,198

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CITY OF SMITHVILLE, TEXAS
NOTES TO THE SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

General – The accompanying schedule of expenditures of federal awards presents all federal expenditures of the City of Smithville, Texas (the “City”).

Basis of Accounting – The expenditures on the accompanying schedule of expenditures of federal awards are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized in the accounting period in which it becomes available and measurable, and expenditures in the accounting period in which the fund liability is incurred, if measurable.

Relationship to the Basic Financial Statements – Expenditures of federal awards are reported in the City’s basic financial statements primarily in the General Fund but at times a Special Revenue Fund or a Capital Projects Fund is used.

Relationship to Federal Financial Reports – Amounts reported in the accompanying schedule of expenditures of federal awards agree with the amounts reported in the related federal financial reports in all significant respects.

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CITY OF SMITHVILLE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major program:

Highway Planning and Construction	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with the federal Uniform Guidance? ☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.205	Highway Planning and Construction

Dollar threshold used to distinguish Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

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CITY OF SMITHVILLE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

Findings Related to Financial Statements Which are Required to be Reported in Accordance with Government Auditing Standards:

2018-001	Budget Overages
Criteria:	Each year the City Council adopts an appropriations budget which limits expenditure amounts within specific line items that can be made by the City departments.
Condition Found:	As of year-end, actual expenditures exceeded appropriations in the General Fund in the sanitation function by \$37,773, in the capital outlay function by \$21,000 and in the transfer out function by \$14,654.
Cause:	The City did not amend the budget for expenditure overages at year end for these line items.
Effect:	The effect of this condition is a technical noncompliance with the legally adopted appropriations budget as required.
Recommendation:	We recommend the City closely monitor expenditures and amend the appropriations budget as required.
Corrective Action Plan:	The Finance Department will closely monitor expenditures and bring budget amendments to the City Council as needed.
Contact Person:	Cynthia White, Finance Director

No findings or questioned costs were required to be reported in accordance with *Government Auditing Standards* for the years ended September 30, 2017.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Findings Related to Federal Awards Which are Required to be Reported in Accordance with federal Uniform Guidance:

No findings or questioned costs were required to be reported in accordance with federal Uniform Guidance for the years ended September 30, 2018 and 2017.

