

**CITY OF RICHWOOD**  
RICHWOOD, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
SEPTEMBER 30, 2018

**KENNEMER, MASTERS & LUNSFORD, LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**8 WEST WAY COURT**  
**LAKE JACKSON, TEXAS 77566**

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**CITY OF RICHWOOD**

Richwood, Texas

*Annual Financial Report  
For the Year Ended September 30, 2018*

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## **FINANCIAL SECTION**

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# Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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## Independent Auditor's Report

To The Honorable Mayor and  
Members of City Council  
City of Richwood  
Richwood, Texas

### **Reports on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Richwood (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 audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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## **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 for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 2 to the financial statements, in 2018, the City adopted new accounting guidance, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 21, general fund budgetary comparison information on pages 84 through 85, required pension related schedules on pages 86 through 89, and required OPEB schedule on page 90 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 statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To The Honorable Mayor and  
Members of City Council  
City of Richwood  
Page 3

The combining and individual fund statements and 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 statements and schedules 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 February 26, 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.

*Kennemer, Masters & Hunsford, LLC*

Lake Jackson, Texas  
February 26, 2019

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## CITY OF RICHWOOD, TEXAS

### *Management's Discussion and Analysis For the Year Ended September 30, 2018*

As management of the City of Richwood (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.

#### **Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 14,161,684 (net position). Of this amount, \$ 380,905 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation.
- The City's total net position increased by \$ 461,800.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 2,135,975. 39.4% of this total amount, \$ 841,907 (unassigned fund balance) is available for use within the City's fund designation.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 841,907 or 28.9% of the total general fund expenditures.
- The City reported net pension liability of \$ 500,395 and a total OPEB liability of \$ 66,316, September 30, 2018, with the implementation of GASB Statements Nos. 68, 71, and 75.

#### **Overview of the Financial Statements**

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

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

The *statement of net position* presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference being 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 fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes).

## CITY OF RICHWOOD, 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 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 administration, public safety, public works, and parks and recreation. The *business-type activities* of the City include water and sewer and sanitation operations. The government-wide financial statements can be found on pages 24 through 27 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 two categories: governmental funds and proprietary funds.

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

Because the focus 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 funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four 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 Debt Service Fund, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single aggregation presentation. The governmental fund financial statements can be found on pages 28 through 32 of this report.

- **Proprietary Funds.** The City maintains one category of *proprietary funds*-Enterprise Funds. Enterprise funds are used to report the same functions presented as business-type activities in government-wide financial statements. The City uses enterprise funds to account for its water and sewer, and sanitation operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 34 through 39 of this report.

## **CITY OF RICHWOOD, TEXAS**

*Management's Discussion and Analysis  
For the Year Ended September 30, 2018*

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41 through 82 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund, and information concerning the City's net pension and total OPEB liability. Required supplementary information can be found on pages 84 and 90 of this report.

Combining and individual fund statements and schedules are presented following the required supplementary information. These statements and schedules can be found on pages 92 through 97 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 14,161,684 as of September 30, 2018.

The largest portion of the City's net position, \$ 12,826,718 (90.6%) reflects its investments in capital assets (e.g., land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide service to citizens; consequently 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 needed 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 of \$ 954,061 (6.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$ 380,905 (2.7%) may be used to meet the government's ongoing obligations to citizens and creditors.

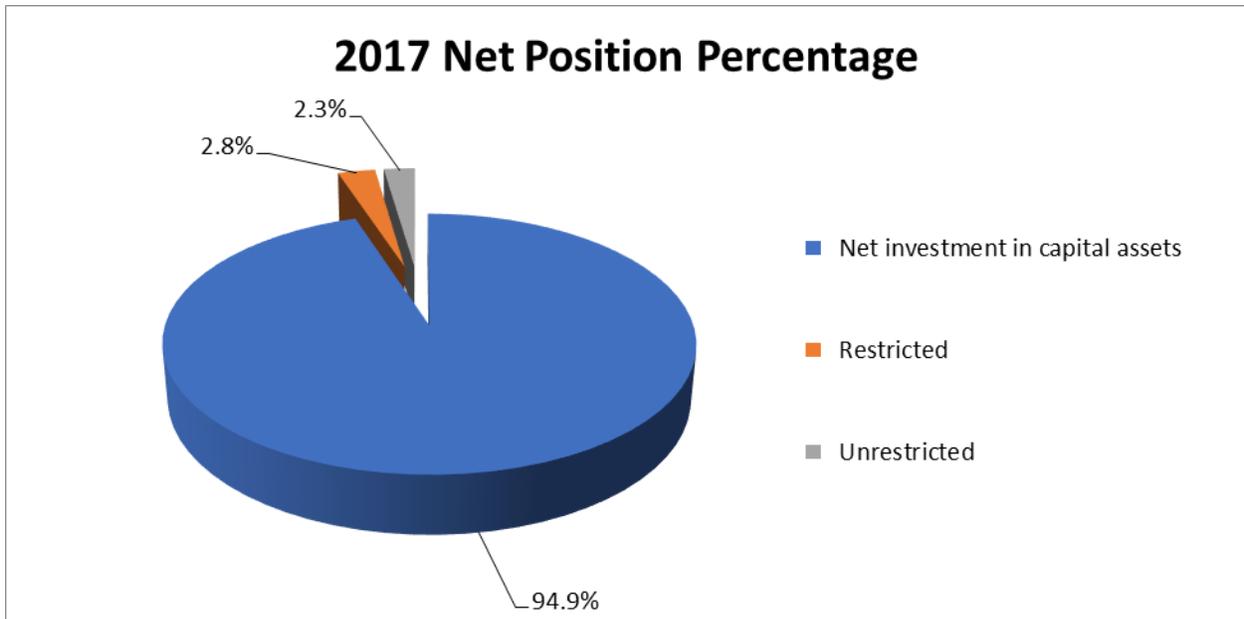
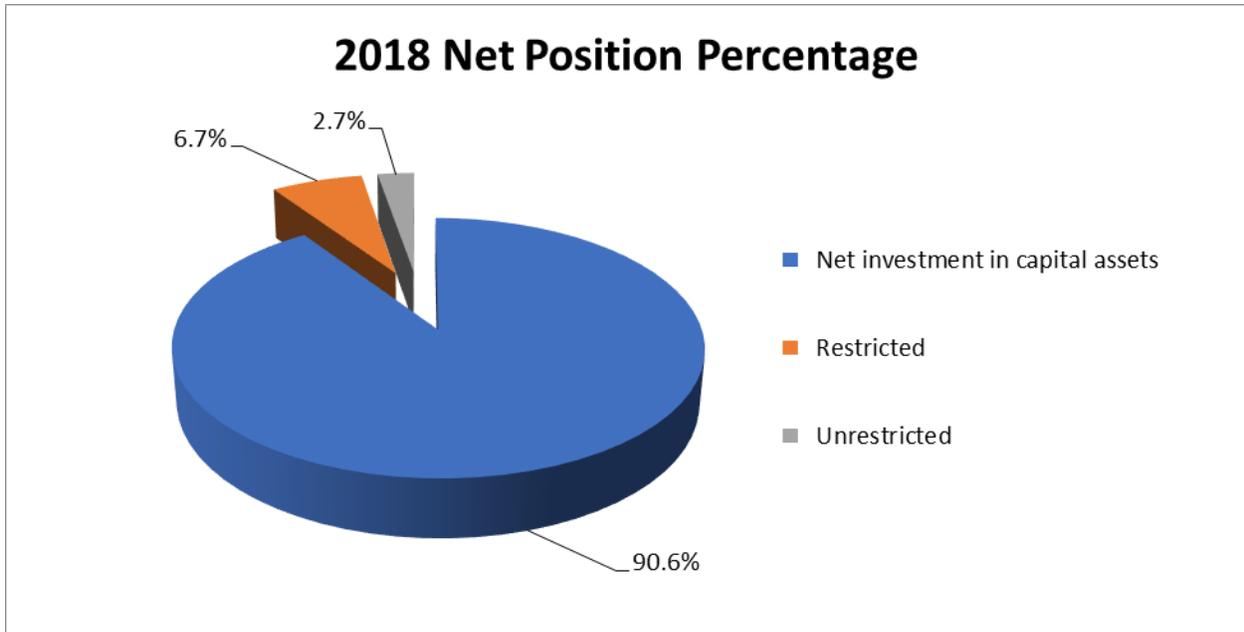
As of September 30, 2018, the City was able to report positive balances in all three categories of net position for the government as a whole and for governmental activities. Business-type activities had a positive balance in net investment in capital assets and a negative balance in unrestricted net position.

**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2018*

**CITY OF RICHWOOD'S STATEMENT OF NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30		September 30,	
	2018	Restated 2017	2018	Restated 2017	2018	Restated 2017
<b>ASSETS</b>						
Current and other assets	\$ 2,469,094	\$ 1,850,100	\$ 70,504	\$ ( 118,539)	\$ 2,539,598	\$ 1,731,561
Capital assets	<u>9,291,841</u>	<u>9,124,130</u>	<u>6,547,158</u>	<u>6,797,753</u>	<u>15,838,999</u>	<u>15,921,883</u>
Total assets	<u>11,760,935</u>	<u>10,974,230</u>	<u>6,617,662</u>	<u>6,679,214</u>	<u>18,378,597</u>	<u>17,653,444</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows of resources	<u>189,859</u>	<u>249,150</u>	<u>31,225</u>	<u>39,792</u>	<u>221,084</u>	<u>288,942</u>
Total deferred outflows of resources	<u>189,859</u>	<u>249,150</u>	<u>31,225</u>	<u>39,792</u>	<u>221,084</u>	<u>288,942</u>
<b>LIABILITIES</b>						
Current and other liabilities	284,177	97,415	261,425	303,571	545,602	400,986
Long-term liabilities	<u>2,423,981</u>	<u>2,374,458</u>	<u>1,272,355</u>	<u>1,414,694</u>	<u>3,696,336</u>	<u>3,789,152</u>
Total liabilities	<u>2,708,158</u>	<u>2,471,873</u>	<u>1,533,780</u>	<u>1,718,265</u>	<u>4,241,938</u>	<u>4,190,138</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows of resources	<u>166,731</u>	<u>44,384</u>	<u>29,328</u>	<u>7,980</u>	<u>196,059</u>	<u>52,364</u>
Total deferred inflows of resources	<u>166,731</u>	<u>44,384</u>	<u>29,238</u>	<u>7,980</u>	<u>196,059</u>	<u>52,364</u>
<b>NET POSITION</b>						
Net Investment in capital assets	7,348,524	7,400,953	5,478,194	5,605,303	12,826,718	13,006,256
Restricted	954,061	379,615			954,061	379,615
Unrestricted	<u>773,320</u>	<u>926,555</u>	<u>( 392,415)</u>	<u>( 612,542)</u>	<u>380,905</u>	<u>314,013</u>
Total net position	<u>\$ 9,075,905</u>	<u>\$ 8,707,123</u>	<u>\$ 5,085,779</u>	<u>\$ 4,992,761</u>	<u>\$ 14,161,684</u>	<u>\$ 13,699,884</u>

**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2018*



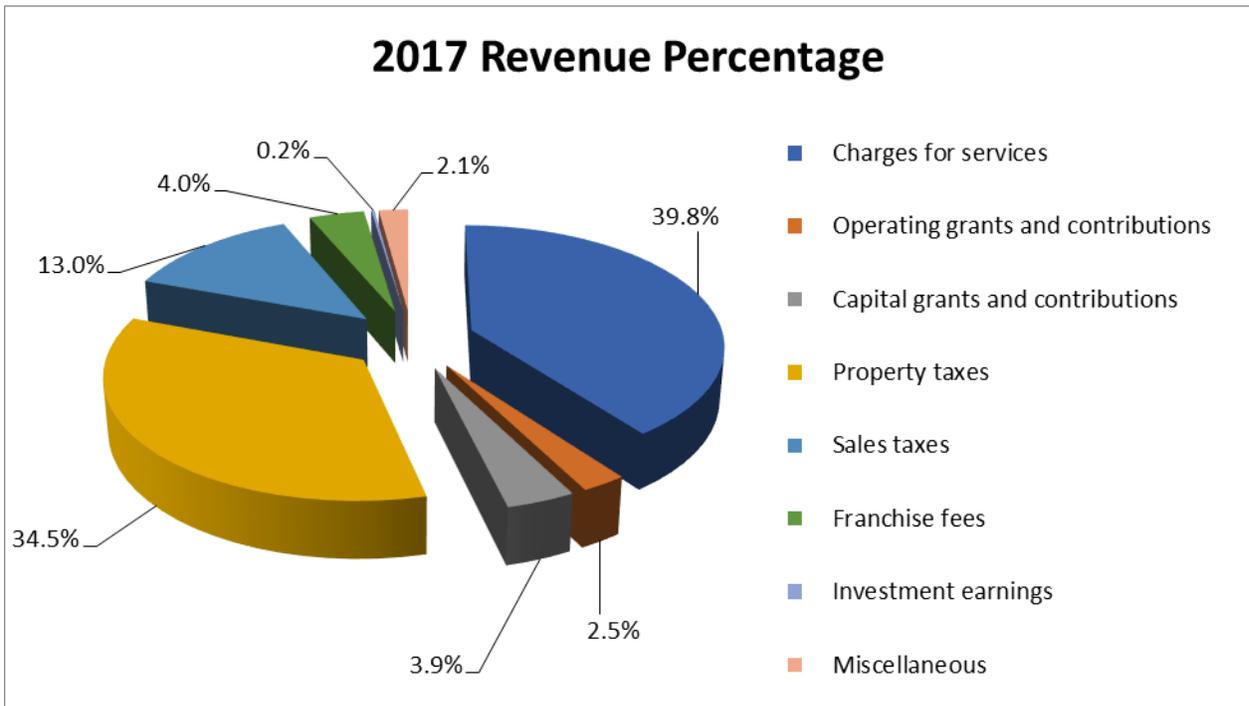
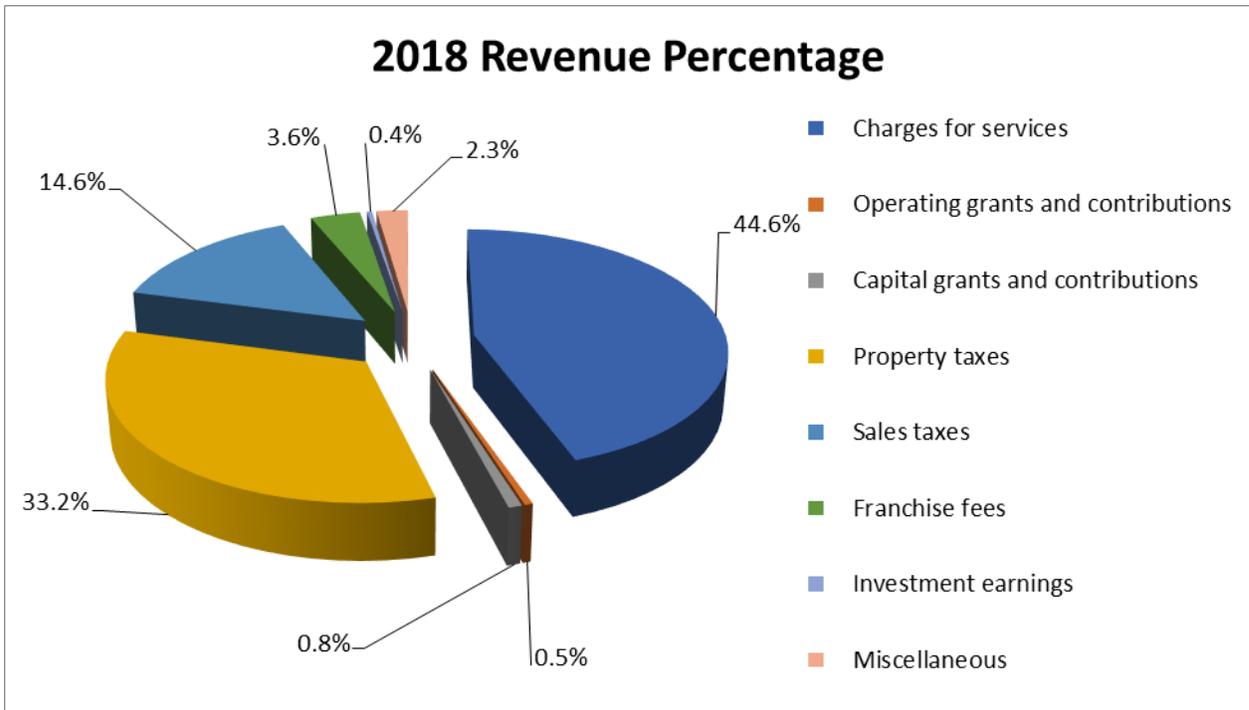
**Analysis of the City's Operations.** The following table provides a summary of the City's operations for the year ended September 30, 2018. Governmental activities increased the City's net position by \$ 368,782. Business-type activities increased the City's net position by \$ 93,018.

**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2018*

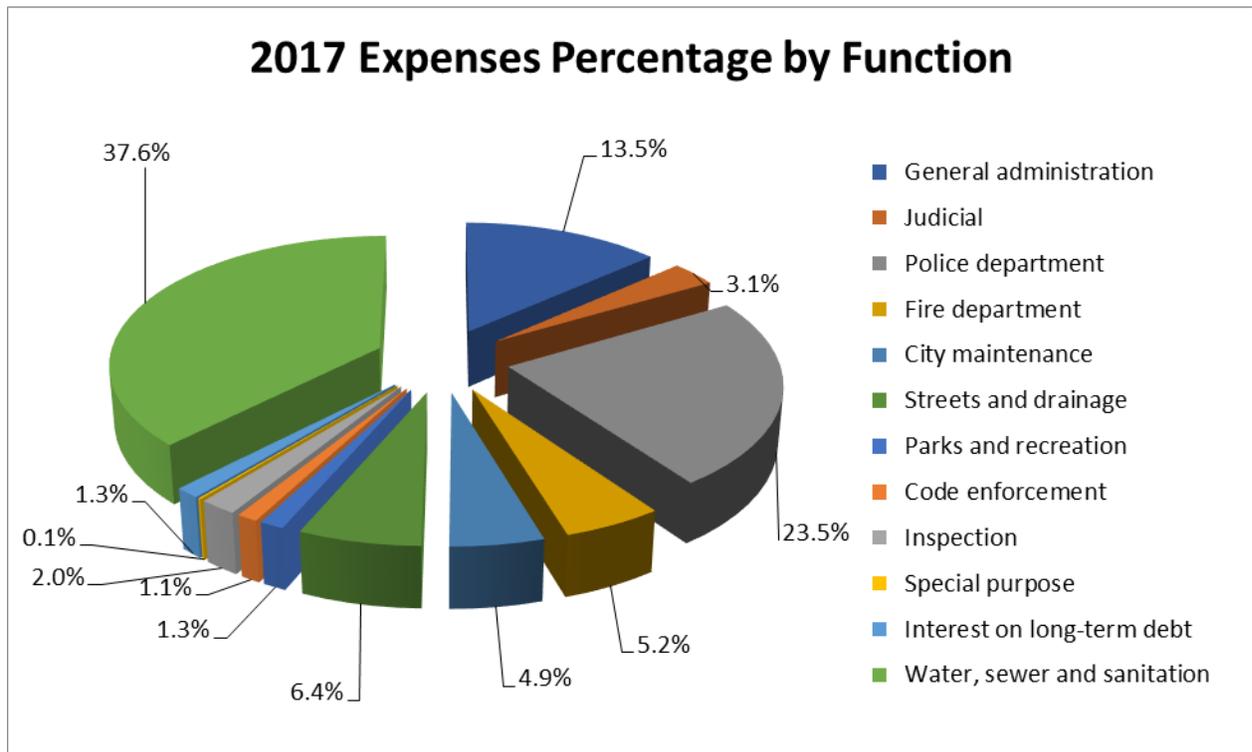
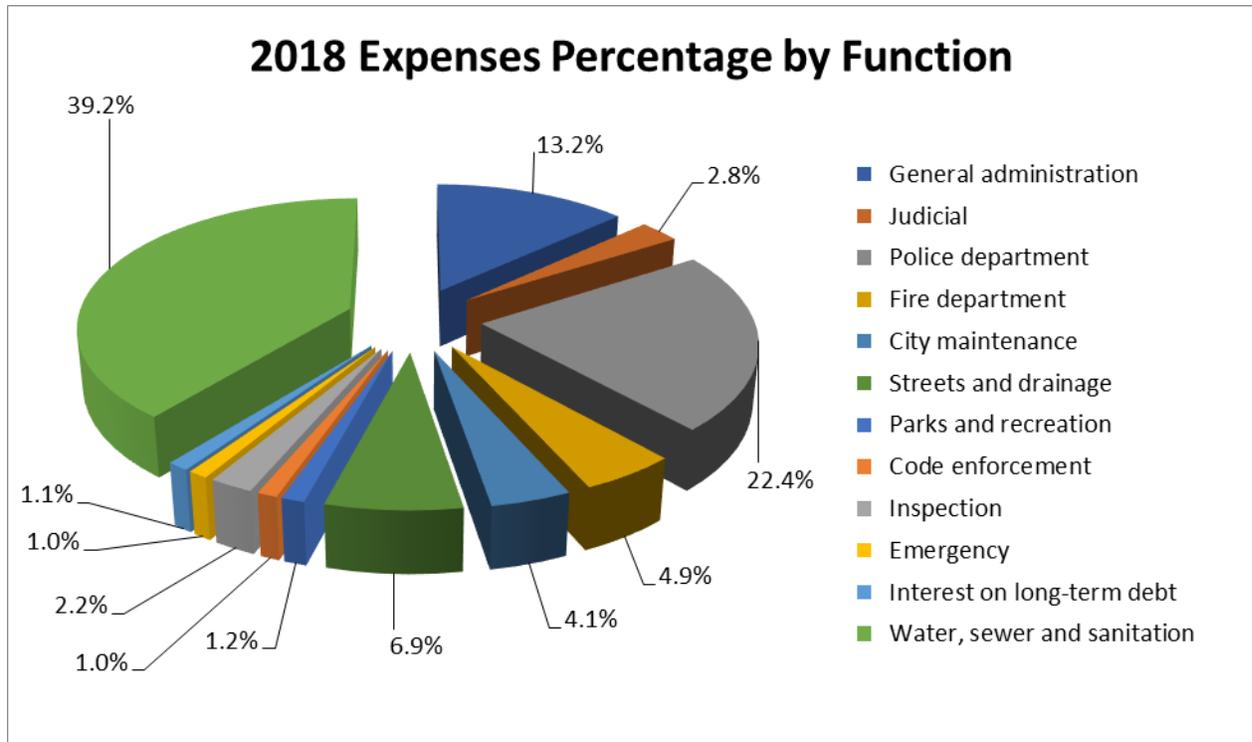
**CITY OF RICHWOOD'S STATEMENT OF ACTIVITY**

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for services	\$ 367,664	\$ 413,727	\$ 1,950,618	\$ 1,418,375	\$ 2,318,282	\$ 1,832,102
Operating grants and contributions	24,097	116,182			24,097	116,182
Capital grants and contributions	40,000	30,493		146,910	40,000	177,403
General Revenues:						
Property taxes	1,728,060	1,585,251			1,728,060	1,585,251
Sales tax	759,945	597,300			759,945	597,300
Franchise fees	189,135	185,077			189,135	185,077
Investment earnings	17,475	10,151	1,908	1,066	19,383	11,217
Miscellaneous	<u>117,905</u>	<u>88,245</u>		<u>10,000</u>	<u>117,905</u>	<u>98,245</u>
Total revenues	<u>3,244,281</u>	<u>3,026,426</u>	<u>1,952,526</u>	<u>1,576,351</u>	<u>5,195,807</u>	<u>4,602,777</u>
Expenses:						
General administration	626,621	582,558			626,621	582,558
Judicial	132,557	136,033			132,557	136,033
Police department	1,055,167	1,016,210			1,055,167	1,016,210
Fire department	233,568	225,171			233,568	225,171
City maintenance	193,180	210,565			193,180	210,565
Streets and drainage	327,222	275,813			327,222	275,813
Parks and recreation	55,842	55,129			55,842	55,129
Code enforcement	48,494	47,363			48,494	47,363
Inspection	105,812	85,401			105,812	85,401
Special purpose		5,610			-0-	5,610
Emergency	47,924				47,924	-0-
Interest on long-term debt	53,047	57,200			53,047	57,200
Water, sewer and sanitation			<u>1,855,573</u>	<u>1,628,177</u>	<u>1,855,573</u>	<u>1,628,177</u>
Total expenses	<u>2,879,434</u>	<u>2,697,053</u>	<u>1,855,573</u>	<u>1,628,177</u>	<u>4,735,007</u>	<u>4,325,230</u>
Increase (decrease) in net position before transfers	264,847	329,373	96,953	( 51,826)	461,800	277,547
Transfers	<u>3,935</u>		<u>( 3,935)</u>		<u>-0-</u>	<u>-0-</u>
Changes in net position	368,782	329,373	93,018	( 51,826)	461,800	277,547
Net position – beginning	9,073,816	8,744,443	4,682,558	4,734,384	13,756,374	13,478,827
Prior year adjustment (see note 2)	<u>( 366,693)</u>		<u>310,203</u>		<u>( 56,490)</u>	
Net position - ending	<u>\$ 9,075,905</u>	<u>\$ 9,073,816</u>	<u>\$ 5,085,779</u>	<u>\$ 4,682,558</u>	<u>\$ 14,161,684</u>	<u>\$ 13,756,374</u>

**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2018*



**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2018*



**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2018*

**Financial Analysis of the City's Funds**

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

**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 government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported ending fund balances of \$ 2,135,975. \$ 841,907 (39.4%) of this total amount constitutes unassigned fund balance. The remainder of the fund balance is either non-spendable, restricted or committed to indicate that it is not available for new spending as follows: 1) \$ 582,360 for long-term receivables, 2) \$ 860 for park, 3) \$ 6,219 for court security and technology, 4) \$ 748 for police training, 5) \$ 108,629 for debt service, 6) \$ 27,780 for street beautification, 7) \$ 225,141 for transportation, 8) \$ 13,565 for insurance, 9) \$ 127,631 for capital improvement, 10) \$ 2,310 for equipment replacement, and 11) \$ 198,825 for crime control and prevention.

The General Fund fund balance increased by \$ 340,228; the Debt Service Fund fund balance increased by \$ 1,769, and the Nonmajor Governmental Funds fund balance increased by \$ 91,386.

**Proprietary funds.** As mentioned earlier, the City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

At September 30, 2018 the proprietary fund had a deficit of \$ 392,415 in unrestricted net position. Total net position increased by \$ 93,018.

**General Fund Budgetary Highlights.** Actual revenues exceeded budget by \$ 209,376 mainly due to increased property taxes and sales taxes revenue. Expenditures budget exceeded the actual expenditures by \$ 68,659 primarily due to spending control on general administration.

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018, was \$ 15,838,999 (net of accumulated depreciation). This investment in capital assets includes land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress. During the year ended September 30, 2018, the City received contributed capital in the amount of \$ 40,000 which was reported within governmental activities.

**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2018*

**Capital Assets at Year-end  
Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2018	2017	2018	2017	2018	2017
Land	\$ 335,262	\$ 335,262	\$ 122,580	\$ 122,580	\$ 457,842	\$ 457,842
Buildings	1,538,440	1,586,885	72,328	77,872	1,610,768	1,664,757
Furniture, equipment and vehicles	924,096	499,134	64,944	27,380	989,040	526,514
Infrastructure	<u>6,494,043</u>	<u>6,702,849</u>	<u>6,287,306</u>	<u>6,569,921</u>	<u>12,781,349</u>	<u>13,272,770</u>
Total	<u>\$ 9,291,841</u>	<u>\$ 9,124,130</u>	<u>\$ 6,547,158</u>	<u>\$ 6,797,753</u>	<u>\$ 15,838,999</u>	<u>\$ 15,921,883</u>

Additional information on the City's capital assets can be found in Note 7 on pages 60 through 62 of this report.

**Debt Administration**

At the end of the current fiscal year, the City had total long-term liabilities of 3,696,336. Of this amount, \$ 2,030,000 is comprised of bonded debt backed by the full faith and credit of the City. These bonds will be retired with revenues from property and sales taxes. Further, the City has \$ 304,711 notes payable, \$ 763,140 obligations under capital lease, \$ 500,395 net pension liability, and \$ 66,316 total OPEB liability.

**Outstanding Debt at Year End  
Bonds Payable**

	Governmental Activities		Business-type Activities		Totals	
	2018		2017		2018	
	2018	2017	2018	2017	2018	2017
Certificates of obligation bonds	\$ 1,225,000	\$ 1,335,000	\$ 805,000	\$ 860,000	\$ 2,030,000	\$ 2,195,000
Notes	304,711	347,433			304,711	347,433
Capital leases	375,690		387,450	443,714	763,140	443,714
Net pension liability	430,411	609,922	69,984	102,529	500,395	712,451
Total OPEB liability	56,395	48,039	9,921	8,451	66,316	56,490
Premium on bonds	<u>31,774</u>	<u>34,064</u>			<u>31,774</u>	<u>34,064</u>
Total	<u>\$ 2,423,981</u>	<u>\$ 2,374,458</u>	<u>\$ 1,272,355</u>	<u>\$ 1,414,694</u>	<u>\$ 3,696,336</u>	<u>\$ 3,789,152</u>

## **CITY OF RICHWOOD, TEXAS**

*Management's Discussion and Analysis  
For the Year Ended September 30, 2018*

All of the outstanding Bonds of the City payable from its limited taxes are insured and are, therefore, rated "Aaa" by Moody's Investors Service Inc ("Moody's"), and "AAA" by Standard & Poor's ("S&P"). The underlying rating on all of such Bonds and other obligations payable from such source are "A1" by Moody's and "A+" by S&P.

Additional information on the City's long term debt can be found in Note 8 on pages 62 through 66 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

In the FY 2018-2019 Budget, General Fund revenues are budgeted to decrease by (\$ 494,506), or 15%, from the 2017-2018 budget year due to decreases in one-time transfers. The transfer in from the Utility Fund is budgeted to be (\$276,166) less due to the decrease of a one-time transfer to eliminate a portion of the debt owed to the General Fund by the Utility Fund. The FY 2019 revenue is also lower due to a decrease of (\$251,750) in a one-time transfer from fund balance to pay one-time expenditures.

Certified assessed valuation decreased by (5.47%) over the preceding year. Net property tax, taxes after payments for 380 Agreements will increase by \$3,363, or approximately 0.22%.

The Enterprise Fund's 2018-2019 budgeted expenses are expected to decrease by (4.41%) over the preceding year's budget. The main cause for the decrease is the reduction of (\$276,166) in the transfer to the General Fund. The largest increase in operating expenses for the Utility Fund was the addition of two new positions and a new utility truck. Water and Sewer rates for the 2018-2019 budget year remained the same.

### **Request for Information**

This financial report is designed to provide a general overview of 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 Office of the City Secretary, 1800 N. Brazosport Blvd, Richwood, Texas, 77531, or call (979) 265-2082.

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## **BASIC FINANCIAL STATEMENTS**

**CITY OF RICHWOOD**

Richwood, Texas

**STATEMENT OF NET POSITION**

September 30, 2018

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>ASSETS:</b>			
Cash and temporary investments	\$ 1,454,698	\$ 169,821	\$ 1,624,519
Investments	210,194		210,194
Receivables (Net):			
Taxes	175,502		175,502
Accounts	35,596	286,874	322,470
Accrued interest	368	80	448
Interfund accounts	586,656	( 586,656)	-0-
Due from other governments	6,080		6,080
Restricted Assets:			
Temporarily Restricted:			
Cash and temporary investments		146,435	146,435
Investments		53,903	53,903
Accrued interest		47	47
Capital Assets (Net of Accumulated Depreciation):			
Land	335,262	122,580	457,842
Buildings	1,538,440	72,328	1,610,768
Furniture, equipment and vehicles	924,096	64,944	989,040
Infrastructure	<u>6,494,043</u>	<u>6,287,306</u>	<u>12,781,349</u>
Total assets	<u>11,760,935</u>	<u>6,617,662</u>	<u>18,378,597</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources	<u>189,859</u>	<u>31,225</u>	<u>221,084</u>
Total deferred outflows of resources	<u>189,859</u>	<u>31,225</u>	<u>221,084</u>

(continued)

**CITY OF RICHWOOD**

Richwood, Texas

## STATEMENT OF NET POSITION - Continued

September 30, 2018

	Governmental Activities	Business- Type Activities	Total
LIABILITIES:			
Accounts payable	\$ 273,796	\$ 115,893	\$ 389,689
Accrued interest payable	6,142	10,147	16,289
Unearned revenue	4,239		4,239
Liabilities Payable from Restricted Assets:			
Accrued interest payable		6,495	6,495
Revenue bonds payable		65,000	65,000
Customer deposits		128,890	128,890
Noncurrent Liabilities:			
Net pension	430,411	69,984	500,395
Total OPEB	56,395	9,921	66,316
Due within one year	174,210	58,486	232,696
Due in more than one year	<u>1,762,965</u>	<u>1,068,964</u>	<u>2,831,929</u>
Total liabilities	<u>2,708,158</u>	<u>1,533,780</u>	<u>4,241,938</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	<u>166,731</u>	<u>29,328</u>	<u>196,059</u>
Total deferred inflows of resources	<u>166,731</u>	<u>29,328</u>	<u>196,059</u>
NET POSITION:			
Net investment in capital assets	7,348,524	5,478,194	12,826,718
Restricted For:			
Park	860		860
Debt service	110,953		110,953
Special revenue	252,921		252,921
Court security and technology	6,219		6,219
Police training	748		748
Enterprise fund (Long-term receivable)	582,360		582,360
Unrestricted	<u>773,320</u>	<u>(392,415)</u>	<u>380,905</u>
Total net position	<u>\$ 9,075,905</u>	<u>\$ 5,085,779</u>	<u>\$ 14,161,684</u>

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

**CITY OF RICHWOOD**

Richwood, 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 administration	\$ 626,621	\$ 224,355	\$	\$
Judicial	132,557			
Police department	1,055,167	127,957	24,097	40,000
Fire department	233,568			
City maintenance	193,180			
Streets and drainage	327,222			
Parks and recreation	55,842	15,352		
Code enforcement	48,494			
Inspection	105,812			
Emergency	47,924			
Interest on long-term debt	53,047			
Total governmental activities	<u>2,879,434</u>	<u>367,664</u>	<u>24,097</u>	<u>40,000</u>
Business-type Activities:				
Water, sewer and sanitation	<u>1,855,573</u>	<u>1,950,618</u>		
Total business-type activities	<u>1,855,573</u>	<u>1,950,618</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$ 4,735,007</u>	<u>\$ 2,318,282</u>	<u>\$ 24,097</u>	<u>\$ 40,000</u>

General Revenue:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise fees

Investment earnings

Miscellaneous

Gain on disposition of capital assets

Transfer in (out)

Total general revenues and transfers

Changes in net position

Net position – beginning (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

Governmental Activities	Business- Type Activities	Total
\$( 402,266)	\$	\$( 402,266)
( 132,557)		( 132,557)
( 863,113)		( 863,113)
( 233,568)		( 233,568)
( 193,180)		( 193,180)
( 327,222)		( 327,222)
( 40,490)		( 40,490)
( 48,494)		( 48,494)
( 105,812)		( 105,812)
( 47,924)		( 47,924)
<u>( 53,047)</u>		<u>( 53,047)</u>
<u>( 2,447,673)</u>	<u>-0-</u>	<u>( 2,447,673)</u>
	<u>95,045</u>	<u>95,045</u>
<u>-0-</u>	<u>95,045</u>	<u>95,045</u>
<u>( 2,447,673)</u>	<u>95,045</u>	<u>( 2,352,628)</u>
1,552,184		1,552,184
175,876		175,876
759,945		759,945
189,135		189,135
17,475	1,908	19,383
110,367		110,367
7,538		7,538
<u>3,935</u>	<u>( 3,935)</u>	<u>-0-</u>
<u>2,816,455</u>	<u>( 2,027)</u>	<u>2,814,428</u>
368,782	93,018	461,800
<u>8,707,123</u>	<u>4,992,761</u>	<u>13,699,884</u>
<u>\$ 9,075,905</u>	<u>\$ 5,085,779</u>	<u>\$ 14,161,684</u>

**CITY OF RICHWOOD**

Richwood, Texas

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

September 30, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets and Deferred Outflows of Resources</u>				
Assets:				
Cash and temporary investments	\$ 1,219,629	\$ 50,715	\$ 184,354	\$ 1,454,698
Investments	163,956	46,238		210,194
Receivables (net of allowance for uncollectibles):				
Taxes	172,626	2,876		175,502
Accounts	2,941			2,941
Accrued interest	291	74	3	368
Due from other government	6,035	45		6,080
Due from other funds	<u>507,270</u>	<u>11,005</u>	<u>79,386</u>	<u>597,661</u>
 Total assets	 <u>2,072,748</u>	 <u>110,953</u>	 <u>263,743</u>	 <u>2,447,444</u>
Deferred Outflows of Resources:				
Deferred outflows of resources	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    -0-</u>
 Total deferred outflows of resources	 <u>                    -0-</u>	 <u>                    -0-</u>	 <u>                    -0-</u>	 <u>                    -0-</u>
 Total assets and deferred outflows of resources	 <u>\$ 2,072,748</u>	 <u>\$ 110,953</u>	 <u>\$ 263,743</u>	 <u>\$ 2,447,444</u>

(continued)

**CITY OF RICHWOOD**

Richwood, Texas

**BALANCE SHEET  
GOVERNMENTAL FUNDS - Continued**

September 30, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
Liabilities:				
Accounts payable and accrued expenditures	\$ 262,974	\$	\$ 10,822	\$ 273,796
Due to other funds	11,005			11,005
Unearned revenue	<u>4,239</u>			<u>4,239</u>
Total liabilities	<u>278,218</u>	<u>-0-</u>	<u>10,822</u>	<u>289,040</u>
Deferred Inflows of Resources:				
Deferred inflows of resources – property taxes	<u>20,105</u>	<u>2,324</u>		<u>22,429</u>
Total deferred inflows of resources	<u>20,105</u>	<u>2,324</u>	<u>-0-</u>	<u>22,429</u>
Fund Balances:				
Non-spendable:				
Enterprise fund (Long-term receivable)	582,360			582,360
Restricted:				
Park	860			860
Debt service		108,629		108,629
Court security and technology	6,219			6,219
Police training	748			748
Street beautification			27,780	27,780
Transportation			225,141	225,141
Committed:				
Insurance	13,565			13,565
Capital improvement	127,631			127,631
Equipment replacement	2,310			2,310
Crime control and prevention	198,825			198,825
Unassigned	<u>841,907</u>			<u>841,907</u>
Total fund balances	<u>1,774,425</u>	<u>108,629</u>	<u>252,921</u>	<u>2,135,975</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,072,748</u>	<u>\$ 110,953</u>	<u>\$ 263,743</u>	<u>\$ 2,447,444</u>

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

**CITY OF RICHWOOD**

Richwood, Texas

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION**

September 30, 2018

Total fund balances – governmental funds balance sheet	\$ 2,135,975
<b>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</b>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 15,329,820 in assets less \$ 6,037,979 in accumulated depreciation.	9,291,841
Property taxes receivables unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 20,105 and \$ 2,324, respectively.	22,429
Municipal court receivables unavailable to pay for current period expenditures are not recognized in the governmental funds. Municipal court receivables of \$ 227,913, net of allowance of \$ 195,258.	32,655
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds increases long-term liabilities in the governmental activities statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds was \$ 31,774 (premium on sale of bonds of \$ 46,091 less amortization of \$ 14,317)	( 31,774)
Pension deferred outflows of resources of \$ 184,563 less deferred inflows of resources of \$ 166,731.	17,832
Payables for net pension liability are not reported in the funds.	( 430,411)
OPEB deferred outflows of resources of \$ 5,296 less deferred inflows of resources of \$ -0-.	5,296
Payables for OPEB liability is not reported in the funds.	( 56,395)
Payables for bond and notes principal are not reported in the funds.	( 1,529,711)
Payables for capital lease.	( 375,690)
Payables for bond interest are not reported in the funds.	( <u>6,142</u> )
Net position of governmental activities – statement of net position.	\$ <u><u>9,075,905</u></u>

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

**CITY OF RICHWOOD**

Richwood, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Revenues:				
Taxes:				
Property taxes	\$ 1,552,047	\$ 176,050	\$	\$ 1,728,097
Sales taxes	759,945			759,945
Franchise fees	189,135			189,135
Revenue producing facilities	15,352			15,352
Fines and fees	129,609			129,609
Licenses and permits	86,684			86,684
Investment earnings	15,922	430	1,123	17,475
Intergovernmental	24,097			24,097
Transportation			137,671	137,671
Miscellaneous	<u>95,859</u>		<u>14,508</u>	<u>110,367</u>
Total revenues	<u>2,868,650</u>	<u>176,480</u>	<u>153,302</u>	<u>3,198,432</u>
Expenditures:				
Current:				
General administration	564,351		9,897	574,248
Judicial	132,894			132,894
Police department	983,076			983,076
Fire department	149,560			149,560
City maintenance	191,400			191,400
Streets and drainage	50,920		53,019	103,939
Parks and recreation	45,923			45,923
Code enforcement	48,641			48,641
Inspection	106,043			106,043
Emergency	47,924			47,924
Capital outlay	559,967			559,967
Debt Service:				
Principal retirement	30,784	121,938		152,722
Interest and agent fees	<u>3,102</u>	<u>52,773</u>		<u>55,875</u>
Total expenditures	<u>2,914,585</u>	<u>174,711</u>	<u>62,916</u>	<u>3,152,212</u>
Excess of revenues over (under) expenditures	<u>( 45,935 )</u>	<u>1,769</u>	<u>90,386</u>	<u>46,220</u>
Other Financing Sources (Uses):				
Proceeds of capital lease	375,690			375,690
Sale of capital assets	7,538			7,538
Transfer in	86,871		1,000	87,871
Transfer out	<u>( 83,936 )</u>			<u>( 83,936 )</u>
Total other financing sources	<u>386,163</u>	<u>-0-</u>	<u>1,000</u>	<u>387,163</u>
Net changes in fund balances	340,228	1,769	91,386	433,383
Fund balances – beginning (restated)	<u>1,434,197</u>	<u>106,860</u>	<u>161,535</u>	<u>1,702,592</u>
Fund balances - ending	<u>\$ 1,774,425</u>	<u>\$ 108,629</u>	<u>\$ 252,921</u>	<u>\$ 2,135,975</u>

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

# CITY OF RICHWOOD

Richwood, Texas

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Net change in fund balances – total governmental funds	\$ 433,383
<b>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</b>	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital outlay \$ 559,967 less depreciation \$ 432,256 in the current period.	127,711
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund increased by \$ 137 and for the debt service fund decreased by \$ 174, respectively.	( 37)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. The amount was for general obligation bonded debt in the amount of \$ 152,722.	152,722
Capital lease proceeds provide current financial resources to governmental funds, but capital lease increases long-term liabilities in the governmental activities statement of net position. Capital lease proceeds in the governmental fund were \$ 375,690.	( 375,690)
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the governmental activities statement of net position. This amount is accreted over the life of the bonds. Premium on the issuance of bonds and amortization of the premium of bonds were \$ -0- and \$ 2,290, respectively.	2,290
Governmental funds report pension payments as expenditures. However, in the governmental activities statement of activities, the pension cost is calculated by an actuary and involves multiple factors. The amount of pension expense reported was \$ 7,423 more than the amount reported in the funds.	( 7,423)
Governmental funds report OPEB payments as expenditures. However, in the governmental activities statement of activities, the OPEB cost is calculated by an actuary and involves multiple factors. The amount of OPEB expense reported was \$ 3,060 more than the amount reported in the funds.	( 3,060)
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt.	538
Municipal court revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Municipal court receivables, net of allowance, decreased by \$ 1,652.	( 1,652)
Capital contributions and trade in gain in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Capital contributions amounted to \$ 40,000.	<u>40,000</u>
Change in net position of governmental activities	<u>\$ 368,782</u>

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

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**CITY OF RICHWOOD**  
Richwood, Texas

STATEMENT OF NET POSITION - PROPRIETARY FUND

September 30, 2018

	<u>Enterprise Fund</u>
<u>Assets and Deferred Outflows of Resources</u>	
Current Assets:	
Cash and cash equivalents	\$ 169,821
Accounts receivable, net	285,505
Other receivable	1,369
Accrued interest receivable	<u>80</u>
Total current unrestricted assets	<u>456,775</u>
Current Restricted Assets:	
Cash and cash equivalents	146,435
Investments	53,903
Accrued interest receivable	<u>47</u>
Total current restricted assets	<u>200,385</u>
Total current assets	<u>657,160</u>
Capital Assets:	
Property, plant and equipment	12,184,158
Less accumulated depreciation	<u>( 5,637,000)</u>
Total capital assets (net of accumulated depreciation)	<u>6,547,158</u>
Total assets	<u>7,204,318</u>
Deferred Outflows of Resources:	
Deferred outflows of resources	<u>31,225</u>
Total deferred outflows of resources	<u>31,225</u>
Total assets and deferred outflows of resources	<u>\$ 7,235,543</u>

(continued)

**CITY OF RICHWOOD**

Richwood, Texas

## STATEMENT OF NET POSITION - PROPRIETARY FUND - Continued

September 30, 2018

	<u>Enterprise Fund</u>
<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>	
Current Liabilities:	
Accounts payable and accrued expenses	\$ 115,893
Accrued interest payable	10,147
Due to other funds (includes current portion notes of \$ 9,185)	13,481
Capital lease payable	<u>58,486</u>
Total current liabilities payable from non-restricted assets	<u>198,007</u>
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	6,495
Customer deposits	128,890
Revenue bonds payable	<u>65,000</u>
Total current liabilities payable from restricted assets	<u>200,385</u>
Total current liabilities	<u>398,392</u>
Noncurrent Liabilities:	
Due to other funds (notes)	573,175
Capital lease payable	328,964
Revenue bonds payable	740,000
Net pension liability	69,984
Total OPEB liability	<u>9,921</u>
Total noncurrent liabilities	<u>1,722,044</u>
Total liabilities	<u>2,120,436</u>
Deferred Inflows of Resources:	
Deferred inflows of resources	<u>29,328</u>
Total deferred inflows of resources	<u>29,328</u>
Net Position:	
Net investment in capital assets	5,478,194
Unrestricted	<u>( 392,415)</u>
Total net position	<u>5,085,779</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,235,543</u>

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

**CITY OF RICHWOOD**  
Richwood, Texas

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
NET POSITION - PROPRIETARY FUND**

For the Year Ended September 30, 2018

	Enterprise Fund
Operating Revenues:	
Water fees	\$ 861,690
Sewer fees	760,933
Garbage fees	260,622
Delinquent charges	29,511
Tap and reconnect fees	24,139
Miscellaneous	13,723
Total operating revenues	1,950,618
Operating Expenses:	
Personnel costs	260,887
Sewer treatment plant operations	281,666
Water costs – BWA	261,614
Sanitation	252,098
Lease	139,189
Utilities and telephone	53,888
Repairs and maintenance	110,529
Supplies	37,525
Miscellaneous	90,310
Operating expenses before depreciation	1,487,706
Depreciation	314,768
Total operating expenses	1,802,474
Operating income	148,144
Non-Operating Revenues (Expenses):	
Investment earnings	1,908
Interest expense and agent fees	( 53,099)
Total non-operating revenues (expenses)	( 51,191)
Loss before contributions and operating transfers	96,953
Transfer in	82,936
Transfer out	( 86,871)
Change in net position	93,018
Net position – beginning of year (restated)	4,992,761
Net position – end of year	\$ 5,085,779

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

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**CITY OF RICHWOOD**

Richwood, Texas

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND**

For the Year Ended September 30, 2018

	Enterprise Fund
Cash Flows from Operating Activities:	
Receipts from customers and users	\$ 1,931,295
Payments to other funds	4,296
Payments to suppliers	( 1,267,656)
Payments to employees	<u>( 262,047)</u>
Net cash provided by operating activities	<u>405,888</u>
Cash Flows from Non-Capital Financing Activities:	
Operating transfers out	<u>( 3,935)</u>
Net cash used for non-capital financing activities	<u>( 3,935)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	( 64,173)
Bond principal payments	( 55,000)
Capital lease payments	( 56,264)
Interest and fiscal charge payments	<u>( 64,462)</u>
Net cash used for capital and related financing activities	<u>( 239,899)</u>
Cash Flows from Investing Activities:	
Proceeds from the sale of investments	100,183
Purchase of investments	( 53,903)
Interest received	<u>1,908</u>
Net cash provided by investing activities	<u>48,188</u>
Change in cash and cash equivalents	210,242
Cash and cash equivalents at the beginning of year	<u>106,014</u>
Cash and cash equivalents at the end of the year	<u>\$ 316,256</u>

(continued)

**CITY OF RICHWOOD**

Richwood, Texas

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND - Continued**

For the Year Ended September 30, 2018

	Enterprise Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by	
Operating Activities:	
Operating income	\$ <u>148,144</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by	
Operating Activities:	
Depreciation	314,768
Increase in accounts receivable	( 29,377)
Increase (decrease) in:	
Accounts payable	( 37,448)
Deferred revenue	( 3,389)
Due to other funds	4,296
Pension liability	( 2,630)
OPEB liability	1,470
Customer deposits	<u>10,054</u>
Total adjustments	<u>257,744</u>
Net cash provided by operating activities	<u>\$ <u>405,888</u></u>

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

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

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# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### General Statement

The City of Richwood (the City) operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, public services (utility facilities), public recreation, public benefits (health and welfare), and general administrative services.

The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

The City's Financial Statements are in accordance with GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38 "Certain Financial Statement Disclosures" which changes the note disclosure requirements in the financial statements for governmental entities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow user's of financial reports to assess a government's operational accountability. The GASB Statement No. 34 reporting model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the most significant accounting policies.

#### Reporting Entity

The City is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the City's financial reporting entity. Based on these considerations, the City's basic financial statements do not include any other entities. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Reporting Entity - Continued

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The members of City council (the "members") are elected by the public and have the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) in its GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14. and No. 34". There are no component units included within the reporting entity.

#### Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Government-wide and Fund Financial Statements - Continued

Interfund activities between governmental funds appear as due to/due from on the Governmental Funds Balance Sheet and as other resources and other uses on the Governmental Funds Statement of Revenues, Expenditure and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and proprietary funds remain as receivables and payables on the government-wide statement of net position.

Separate financial statements are provided for governmental funds and proprietary funds. The City does not have any fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has only one proprietary fund.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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.

Property taxes, franchise taxes, licenses, municipal court revenues 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. All other revenue items are considered measurable and available only when cash is received by the government.

The City has presented the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The *Debt Service Fund* accounts for the accumulation of resources for the annual payment of general long-term debt principal and interest of the governmental funds.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The City reports the following major proprietary fund:

The Enterprise Fund is used to account for the provision of water, sewer and sanitation services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility and sanitation customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the City's Enterprise Fund are charges to customers for sales and services. The City also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for the Enterprise Fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

#### New Pronouncements

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued June 2015. The statement was implemented and did have a material effect on the City's financial statements. This statement is effective for periods beginning after June 15, 2017.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### New Pronouncements - Continued

GASB No. 83 “Certain Asset Retirement Obligations” was issued in November 2016. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. The requirements of this Statement are effective for periods beginning after June 15, 2018.

GASB No. 84 “Fiduciary Activities” was issued in January 2017. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. The requirements of this Statement are effective for periods beginning after December 15, 2018.

GASB No. 85 “Omnibus 2017” was issued in March 2017. The statement was implemented and did not have a material effect on the City’s financial statements. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB No. 86 “Certain Debt Extinguishment Issues” was issued in May 2017. The statement was implemented and did not have a material effect on the City’s financial statements. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB No. 87 “Leases” was issued in June 2017. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. The requirements of this Statement are effective for periods beginning after December 15, 2019.

GASB No. 88 “Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements” was issued in April 2018. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB No. 89 “Accounting for Interest Cost Incurred before the End of a Construction Period” was issued in June 2018. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB No. 90 “Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61” was issued in August 2018. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Budgetary Data

All departments of the City submit requests for appropriation to the City Secretary so that a budget may be prepared. The budget is prepared by fund and includes requested appropriations for the next year. The proposed budget is presented to the Mayor and City Council for review. The City Council holds budget workshops and may add to, subtract from, or change appropriations. A public hearing is held prior to adoption.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level. Line item and department budgets may exceed appropriated amounts at the discretion of the City Council as long as total expenditures for the fund do not exceed appropriated amounts. Revisions to the budget were made during the year. Appropriations not exercised in the current year lapse at the end of the year.

The City adopts annual budgets for all significant governmental fund types (General Fund, Debt Service Fund, and Special Revenue Fund) and proprietary fund type (Enterprise Fund).

The City prepares its annual budget on a generally accepted accounting principles basis (GAAP basis). The budget and all transactions are presented in accordance with the City's GAAP basis in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General, Debt Service and Enterprise Fund to provide a meaningful comparison of actual results with the budget.

#### Encumbrances

The City utilizes encumbrance accounting, in its governmental funds. Encumbrances represent commitments related to contracts not yet performed (executor contracts), and are used to control expenditures for the period and to enhance cash management. The City often issues purchase orders or signs contracts for the purchase of goods and services to be received in the future. At the time these commitments are made, which in its simplest form means that when a purchase order is prepared, the appropriate account is checked for available funds. If an adequate balance exists, the amount of the order is immediately charged to the account to reduce the available balance for control purposes. The encumbrance account does not represent an expenditure for the period, only a commitment to expend resources.

Prior to the end of the current period, every effort should be made to liquidate outstanding encumbrances. When encumbrances are outstanding at the current period end, the City likely will honor the open purchase orders or contracts that support the encumbrances. For reporting purposes, as noted earlier, outstanding encumbrances are not considered expenditures for the current period. If the City allows encumbrances to lapse, even though it plans to honor the encumbrances, the appropriations authority expires and the items represented by the encumbrances are usually re-appropriated in the following year's budget. Open encumbrances at current period-end are included in restricted, committed or assigned fund balance, as appropriate. The City had no outstanding encumbrances as September 30, 2018.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and short-term investments with an original maturity date of three months or less. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. Temporary investments are stated at cost. State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements.

#### Inventory

The City uses the purchase method of accounting for inventory. In the purchase method of accounting for inventory, purchases of gasoline and office supplies are recorded as expenditures when acquired. Inventory on hand at the end of the year is recorded as an asset and a reservation of fund balance if significant. Inventory at September 30, 2018 was not significant and therefore, is not recorded.

#### Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The City had no advances between funds. See Note 6 for additional discussion of interfund receivables and payables.

#### Capital Assets

Capital assets, which includes land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are reported at acquisition value. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest cost to be capitalized on assets with tax-exempt borrowing is equal to the cost of the borrowing less interest earned on the related tax-exempt borrowing. During the year ended September 30, 2018, no capitalized interest was recorded.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Capital Assets - Continued

Assets capitalized have an original cost of \$ 5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	31-40 Years
Furniture, equipment and vehicles	5-10 Years
Infrastructure:	
Water and sewer system	45 Years
General infrastructure assets	40-45 Years

#### Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the City 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. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the City is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances taxpayers and taxing units, including the City, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on July 13, 2017, upon which the levy for the 2017-18 fiscal year was based, was \$ 287,469,528. Taxes are delinquent if not paid by January 31. Delinquent taxes are subject to penalty and Interest charges plus 20% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended September 30, 2018, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.575223 and \$ 0.059221 per \$ 100 valuation, respectively, for a total of \$ 0.634444 per \$ 100 valuation.

Current tax collections for the year ended September 30, 2018 were 99.02% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of September 30, 2018, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 25,242 and \$ 2,876 for the general and debt service funds, respectively.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

#### Pension Plans and OPEB Plans

For purposes of measuring the net pension liability, total OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expenses, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) 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.

#### Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. The City has not recorded any bond premiums and discounts. Bond issuance costs are reported as expenditures or expenses in the current period.

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

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Fund Balances

The City Council of Trustees meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The City's Unassigned General Fund Balance is maintained to provide the City with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the City Council. Fund Balance of the City may be committed for a specific source by formal action of the City Council. Amendments or modifications of the committed fund balance must also be approved by formal action by the City Council. When it is appropriate for fund balance to be assigned, the City Council delegates authority to the City Manager or City Secretary. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

The City implemented GASB Statement No. 54, "Fund Balance, Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on government's fund balance more transparent. The following classifications describe the relative strength of spending constraints:

Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions of enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the City's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amount had been restricted, committed or assigned.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Fund Balances - Continued

As of September 30, 2018, non-spendable fund balance includes \$ 582,360 for long-term receivable in the general fund. Restricted fund balances include \$ 860 for park, \$ 6,219 for court security and technology, \$ 748 for police training in the general fund, \$ 108,629 for debt service in the debt service fund, and \$ 27,780 for street beautification and \$ 225,141 for transportation in the special revenue funds. Committed fund balance includes \$ 13,565 for insurance, \$ 127,631 for capital improvement, \$ 2,310 for equipment replacement, and \$ 198,825 for crime control and prevention in the general fund. Unassigned fund balance includes \$ 841,907 in the general fund.

#### Net Position

Net position represents the differences between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

### NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT

During the year ended September 30, 2018, the City implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

During the year ended September 30, 2018, the City's management determined that enterprise fund owes the general fund \$ 318,654 in back utility payments.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT** - Continued

The following represents the retroactive restatement of net position as a result of implementation of GASB Statement No. 75 and other prior period adjustment as noted above:

	<u>General Fund</u>	<u>Governmental Activities</u>	<u>Business type Activities</u>
Net position, September 30, previously reported	\$ <u>1,752,851</u>	\$ <u>9,073,816</u>	\$ <u>4,682,558</u>
Addition of total OPEB liability		( 48,039)	( 8,451)
Reclassify between governmental activities and business-type activities	( <u>318,654</u> )	( <u>318,654</u> )	<u>318,654</u>
Total adjustment	( <u>318,654</u> )	( <u>366,693</u> )	<u>310,203</u>
Net position, September 30, restated	\$ <u>1,434,197</u>	\$ <u>8,707,123</u>	\$ <u>4,992,761</u>

**NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES**

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, a temporary investment is one that when purchased had a maturity date of three months or less.

Cash and temporary investments, and investments, as reported on the statement of net position at September 30, 2018, are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 800	\$	\$ 800
Financial Institution Deposits:			
Demand deposits	434,298	103,264	537,562
Certificates of deposit	243,537		243,537
Local Government Investment Pool:			
Texpool	361,873	42,337	404,210
TexStar	256,271		256,271
Logic	<u>327,740</u>	<u>834</u>	<u>328,574</u>
Total cash and temporary investments	<u>1,624,519</u>	<u>146,435</u>	<u>1,770,954</u>
Investments:			
Financial Institution Deposits:			
Certificates of deposit	<u>210,194</u>	<u>53,903</u>	<u>264,097</u>
Total	\$ <u>1,834,713</u>	\$ <u>200,338</u>	\$ <u>2,035,051</u>

## CITY OF RICHWOOD

Richwood, Texas

### NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

#### NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

##### Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to them. The City requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At year end, except for \$ 800 of petty cash, the carrying amount of the City's deposits was \$ 1,045,196, while the financial institution balances totaled \$ 1,069,135. Of the financial institution balances, \$ 378,561 was covered by federal depository insurance, and \$ 690,574 was covered by collateral held by the City's agent in the City's name.

##### Investments

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

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes and "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

The City's Investment Officer submits an investment report each quarter to the City Council. The report details the investment positions of the City and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

## CITY OF RICHWOOD

Richwood, Texas

### NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

#### NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

##### Investments - Continued

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

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. Banker's acceptances as permitted by Government Code 2256.012;
5. Commercial paper as permitted by Government Code 2256.013;
6. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
8. Public funds investment pools as permitted by Government Code 2256.016.

The City is invested in a certificate of deposit at Brazos National Bank and First National Bank to provide its liquidity needs. It has a maturity of less than 365 days. This investment is insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The City participates in three Local Government Investment Pools (LGIPs): TexPool, Logic, and TexSTAR. The State Comptroller oversees TexPool and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over Logic and TexSTAR, advisory boards consisting of participants or their designees, maintains oversight responsibility for Logic and TexSTAR.

The City invests in TexPool, Logic, and TexSTAR to provide its liquidity needs. TexPool, Logic, and TexSTAR are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool, Logic, and TexSTAR are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. TexPool, Logic, and TexSTAR are rated AAAM and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At September 30, 2018 TexPool, Logic, and TexSTAR had a weighted average maturity of 28 days, 38 days, and 38 days, respectively. Although TexPool, Logic, and TexSTAR portfolios had a weighted average maturity of 28 days, 38 days, and 38 days, respectively, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

The following table includes the portfolio balances of all investment types of the City at September 30, 2018.

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Weighted Average Maturity (Days)</u>	<u>Investment Balance</u>
Certificate of Deposit	12-14-18	0.50%	75	\$ 106,098
Certificate of Deposit	01-03-19	0.70%	95	125,191
Certificate of Deposit	01-17-19	0.65%	109	58,475
Certificate of Deposit	11-05-18	0.45%	36	90,883
Certificate of Deposit	02-03-19	0.17%	126	<u>126,987</u>
Total Certificates of Deposit			65	<u>507,634</u>
Local Government Investment Pool:				
TexPool	N/A	Varies daily	28	404,210
TexSTAR	N/A	Varies daily	38	256,271
Logic	N/A	Varies daily	38	<u>328,574</u>
Total Local Government Investment Pool			36	<u>989,055</u>
Total investments			46	<u>\$ 1,496,689</u>

Credit Risk - As of September 30, 2018, the LGIPs (which represent approximately 66.1% of the investment portfolio) are rated AAAM by Standard and Poor's or AAA by Finch, while the remainder is invested in fully secured certificates of deposit.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days of the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

#### Investments - Continued

Fair Value – The City categorizes its fair value measurements within the fair value hierarchy established by GASB No 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The City holds no investments which are measured at fair value as of September 30, 2018.

#### Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The City made no direct investments in derivatives during the year ended September 30, 2018, and holds no direct investments in derivatives at September 30, 2018.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 4 - RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS**

**Governmental Funds**

Receivables as of September 30, 2018, for the government's individual major funds including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Taxes:			
Property	\$ 46,372	\$ 5,364	\$ 51,736
Sales	118,434		118,434
Franchise	28,950		28,950
Allowance for uncollectibles	<u>( 21,130)</u>	<u>( 2,488)</u>	<u>( 23,618)</u>
	172,626	2,876	175,502
Accounts	<u>2,941</u>		<u>2,941</u>
Net total receivable	<u>\$ 175,567</u>	<u>\$ 2,876</u>	<u>\$ 178,443</u>

**Proprietary Fund**

Proprietary fund accounts receivable is comprised of \$ 285,505 due from charges for services provided to customers and \$ 1,369 for other miscellaneous items. The City specifically identifies accounts to be written off prior to year-end. Accordingly, an allowance for doubtful accounts is not considered necessary.

**Municipal Court Receivables**

Municipal court receivables are reported in the governmental activities statement of net position. Since these receivables do not represent current available resources, they are not reported in the governmental funds balance sheet. The allowance for uncollectible receivables related to municipal court assessments is determined based on historical experience and evaluation of collectibility in relation to the aging of customer accounts. Municipal court receivables and the allowance for uncollectible for the year ended September 30, 2018 were \$ 227,913 and \$ 195,258, respectively.

**NOTE 5 - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES AND UNEARNED REVENUE**

**Governmental Funds**

Governmental funds defer the recognition of revenue in connection with receivables that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue). Unearned revenue was \$ 4,239 as of September 30, 2018. Deferred inflows of resources (delinquent property taxes receivable) were \$ 20,105 in general fund and \$ 2,324 in debt service fund as of September 30, 2018.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 5 - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES AND UNEARNED REVENUE - Continued**

**Governmental and Business-Type Activities**

Governmental and business-type activities defer the recognition of pension expense for contributions made from the measurement date to the current year-end of September 30, 2018 and report these as deferred outflows of resources. Governmental and business-type activities also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. Further, for governmental and business-type activities, like governmental funds, defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of September 30, 2018, the various components of deferred inflows and outflows of resources reported in the governmental and business-type activities were as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b><u>Governmental Activities</u></b>		
Pension deferred inflows and outflows of resources		
less amortization - TMRS	\$ 84,717	\$ 166,731
Pension contributions subsequent to the measurement date - TMRS	85,562	
Pension deferred inflows and outflows of resources		
less amortization - TESRS	5,804	
Pension contributions subsequent to the measurement date - TESRS	8,480	
OPEB Deferred inflows and outflows of resources less amortization	4,153	
OPEB contributions subsequent to the measurement date	<u>1,143</u>	<u>          </u>
Totals	<u>\$ 189,859</u>	<u>\$ 166,731</u>
<b><u>Business-Type Activities</u></b>		
Pension deferred inflows and outflows of resources		
less current amortization - TMRS	\$ 14,902	\$ 29,328
Pension contributions subsequent to the measurement date – TMRS	15,386	
OPEB Deferred inflows and outflows of resources less amortization	731	
OPEB contributions subsequent to the measurement date	<u>206</u>	<u>          </u>
Totals	<u>\$ 31,225</u>	<u>\$ 29,328</u>
Total TMRS pension deferred inflows and outflows of resources	<u>\$ 200,567</u>	<u>\$ 196,059</u>
Total TESRS pension deferred inflows and outflows of resources	<u>\$ 14,284</u>	<u>\$ -0-</u>
Total OPEB deferred inflows and outflows of resources	<u>\$ 6,233</u>	<u>\$ -0-</u>

Unearned revenues reported in the governmental and business-type activities were \$ 4,239 and \$ 0 as of September 30, 2018.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

**Interfund Receivables and Payables**

Interfund balances at September 30, 2018 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Enterprise fund	\$ 507,270	\$
Debt service fund	<u>                    </u>	<u>11,005</u>
Total general fund	<u>507,270</u>	<u>11,005</u>
Debt Service Fund:		
General fund	<u>11,005</u>	<u>-0-</u>
Special Revenue Fund:		
Enterprise fund	<u>79,386</u>	<u>-0-</u>
Enterprise Fund:		
General fund	<u>                    </u>	507,270
Special revenue	<u>                    </u>	<u>79,386</u>
Total enterprise fund	<u>-0-</u>	<u>586,656</u>
Totals	<u>\$ 597,661</u>	<u>\$ 597,661</u>

During the year ended September 30, 2018, the Enterprise Fund had \$586,656 payable to the governmental funds. The council decided to charge interest on the balance of \$ 582,360 and planned to pay back the balance from Enterprise Fund to the governmental funds in fifteen years. The balance is considered a long-term receivable in the governmental funds and a long-term payable in the Enterprise Fund. Monthly principal and interest payments are required with a 1.9% interest rate. The following is the repayment schedule as of September 30, 2018:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 9,185	\$ 11,065	\$ 20,250
2020	14,360	10,890	20,250
2021	19,633	10,617	30,250
2022	25,006	10,244	35,250
2023	30,481	9,769	40,250
2024-2028	223,146	38,104	261,250
2029-2033	<u>560,549</u>	<u>15,012</u>	<u>275,561</u>
	<u>\$ 582,360</u>	<u>\$ 105,701</u>	<u>\$ 688,061</u>

Other interfund balances represent short-term borrowing primarily for cash flow purposes. These include revenue or expenditure/expenses adjustment between funds at or near year-end.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - Continued**

**Interfund Transfers**

Interfund transfers for the year ended September 30, 2018 consisted of the following individual fund transfers in and transfers out.

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>Governmental Funds General Fund</u>	<u>Non-major Funds</u>	<u>Enterprise Fund</u>	
Governmental Fund				
General Fund	\$	\$ 1,000	\$ 82,936	\$ 83,936
Enterprise Fund	<u>86,871</u>	<u>          </u>	<u>          </u>	<u>86,871</u>
	<u>\$ 86,871</u>	<u>\$ 1,000</u>	<u>\$ 82,936</u>	<u>\$ 170,807</u>

These transfers were approved by the City council as transfers of funds to cover planned expenditures/expenses.

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2018, was as follows:

	<u>Balance 10/01/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 09/30/18</u>
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ <u>335,262</u>	\$ <u>          </u>	\$ <u>          </u>	\$ <u>335,262</u>
Total capital assets, not being depreciated	<u>335,262</u>	<u>-0-</u>	<u>-0-</u>	<u>335,262</u>
<b>Capital Assets, Being Depreciated:</b>				
Buildings	1,933,025			1,933,025
Equipment	2,086,341	599,967	( 92,376)	2,593,932
Infrastructure	<u>10,467,601</u>	<u>          </u>	<u>          </u>	<u>10,467,601</u>
Total capital assets, being depreciated	<u>14,486,967</u>	<u>599,967</u>	<u>( 92,376)</u>	<u>14,994,558</u>
<b>Less Accumulated Depreciation For:</b>				
Buildings	346,140	48,445		394,585
Equipment	1,587,207	175,005	( 92,376)	1,669,836
Infrastructure	<u>3,764,752</u>	<u>208,806</u>	<u>          </u>	<u>3,973,558</u>
Total accumulated depreciation	<u>5,698,099</u>	<u>432,256</u>	<u>( 92,376)</u>	<u>6,037,979</u>
Total capital assets, being depreciated, net	<u>8,788,868</u>	<u>167,711</u>	<u>-0-</u>	<u>8,956,579</u>
Governmental activities capital assets, net	<u>\$ 9,124,130</u>	<u>\$ 167,711</u>	<u>\$ -0-</u>	<u>\$ 9,291,841</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 7 - CAPITAL ASSETS** - Continued

	<u>Balance</u> <u>10/01/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/18</u>
Business-type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ <u>122,580</u>	\$ _____	\$ _____	\$ <u>122,580</u>
Total capital assets, not being depreciated	<u>122,580</u>	<u>-0-</u>	<u>-0-</u>	<u>122,580</u>
Capital Assets, Being Depreciated:				
Buildings	193,270			193,270
Equipment	243,996	55,300		299,296
Infrastructure	<u>11,560,139</u>	<u>8,873</u>		<u>11,569,012</u>
Total capital assets, being depreciated	<u>11,997,405</u>	<u>64,173</u>	<u>-0-</u>	<u>12,061,578</u>
Less Accumulated Depreciation For:				
Buildings	115,398	5,544		120,942
Equipment	216,616	17,736		234,352
Infrastructure	<u>4,990,218</u>	<u>291,488</u>		<u>5,281,706</u>
Total accumulated depreciation	<u>5,322,232</u>	<u>314,768</u>	<u>-0-</u>	<u>5,637,000</u>
Total capital assets, being depreciated, net	<u>6,675,173</u>	<u>( 250,595)</u>	<u>-0-</u>	<u>6,424,578</u>
Business-type activities capital assets, net	\$ <u>6,797,753</u>	\$ <u>( 250,595)</u>	\$ <u>-0-</u>	\$ <u>6,547,158</u>

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

Governmental Activities:	
General administration	\$ 53,407
City maintenance	2,082
Streets and drainage	223,283
Police department	74,649
Fire department	68,916
Parks and recreation	<u>9,919</u>
Total depreciation expense-governmental activities	\$ <u>432,256</u>
Business-type Activities:	
Water and sewer	\$ <u>314,768</u>
Total depreciation expense-business-type activities	\$ <u>314,768</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

NOTE 7 - CAPITAL ASSETS - Continued

Contributed Capital

During the year ended September 30, 2018 the City received contributed capital in the amount of \$ 40,000 which was reported within governmental activities.

Governmental Fund Construction Commitments

The City has no governmental fund construction commitment at September 30, 2018.

Proprietary Fund Construction Commitments

The City has no proprietary fund construction commitment at September 30, 2018.

NOTE 8 - LONG-TERM DEBT

General Obligation Bonds/Certificates of Obligation

In July 2011, the City issued City of Richwood, Texas General Obligation Refunding Bonds, Series 2011 in the amount of \$ 740,000 to refund the City of Richwood, Texas Tax and Revenue Certificates of Obligation Bonds, Series 1999. Interest rate for these bonds is 3.13%.

In July 2012, the City issued City of Richwood, Texas Combined Tax and Revenue Certificates of Obligation Bonds, Series 2012 in the amount of \$ 1,115,000 to fund the purchase and construction of the new city hall.

General obligation bonds and certificates of obligation payable for governmental activities at September 30, 2018, are summarized as follows:

	<u>Interest Rates %</u>	<u>Series Dates</u>			<u>Bonds Outstanding 09/30/18</u>
		<u>Issued</u>	<u>Maturity</u>	<u>Callable</u>	
General Obligation Refunding Bonds, Series 2011 Certificate of Obligation Bond, Series 2012	3.13%	2011	2024		\$ 380,000
	2.00-3.50%	2012	2032		<u>845,000</u>
Total					<u>\$ 1,225,000</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

NOTE 8 - LONG-TERM DEBT - Continued

General Obligation Bonds/Certificates of Obligation - Continued

General obligation bond transactions for the year ended September 30, 2018 were as follows:

Bonds outstanding, October 1, 2017	\$ 1,335,000
Maturities	( 110,000)
Bonds outstanding, September 30, 2018	<u>\$ 1,225,000</u>

The following is a summary of general obligation and certificate of obligation bond requirements for governmental activities by year as of September 30, 2018:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2019	\$ 105,000	\$ 39,944	\$ 144,944
2020	110,000	37,223	147,223
2021	115,000	33,845	148,845
2022	120,000	30,310	150,310
2023	120,000	26,626	146,626
2024-2028	375,000	84,091	459,091
2029-2032	<u>280,000</u>	<u>25,025</u>	<u>305,025</u>
Total	<u>\$ 1,225,000</u>	<u>\$ 277,064</u>	<u>\$ 1,502,064</u>

Notes

During the year ended September 30, 2013, the City received a loan of \$ 300,000 from the First National Bank of Lake Jackson to finance the completion of the City Hall building. Quarterly principal and interest payments of \$ 5,347 are required with a 3.75% interest rate. During the year ended September 30, 2018, the City paid \$ 11,938 in principle and \$ 9,451 in interest.

The following is the note repayment schedule as of September 30, 2018:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2019	\$ 15,563	\$ 11,173	\$ 26,736
2020	12,984	8,405	21,389
2021	13,477	7,911	21,388
2022	13,990	7,399	21,389
2023	14,522	25,617	40,139
2024-2028	81,326	8,930	90,256
2029-2033	<u>92,666</u>	<u>8,930</u>	<u>101,596</u>
Total	<u>\$ 244,528</u>	<u>\$ 78,365</u>	<u>\$ 322,893</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

NOTE 8 - LONG-TERM DEBT - Continued

Notes - Continued

During the year ended September 30, 2016, the City received a loan of \$ 20,000 from the First State Bank of Clute to finance the purchase of tools. Annually principal and interest payments of \$ 7,332 are required with a 4.50% interest rate. During the year ended September 30, 2018, the City paid \$ 6,713 in principle and \$ 619 in interest. The following is the note repayment schedule as of September 30, 2018:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2019	\$ <u>7,045</u>	\$ <u>317</u>	\$ <u>7,362</u>
Total	\$ <u>7,045</u>	\$ <u>317</u>	\$ <u>7,362</u>

During the year ended September 30, 2017, the City received a loan of \$ 98,493 from the First National Bank of Lake Jackson to finance the purchase of equipment. Monthly principal and interest payments of \$ 2,213 are required with a 3.75% interest rate. During the year ended September 30, 2018, the City paid \$ 24,072 in principle and \$ 2,483 in interest. The following is the note repayment schedule as of September 30, 2018:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2019	\$ 24,990	\$ 1,565	\$ 26,555
2020	25,942	613	26,555
2021	<u>2,206</u>	<u>7</u>	<u>2,213</u>
Total	\$ <u>53,138</u>	\$ <u>2,185</u>	\$ <u>55,323</u>

Revenue Bonds/Certificates of Obligation

In July 2004, the City issued \$ 500,000 of City of Richwood, Texas Combination Tax and Revenue Certificates of Obligation, Series 2004 to finance improvements to the existing wastewater system (the "Project"). Interest rates on these bonds range from 2.75% to 5.70%. These certificates of obligation were purchased by the Texas Water Development Board.

In July 2011, the City issued \$ 770,000 of City of Richwood, Texas Combination Tax and Revenue Certificates of Obligation, Series 2011 to finance improvements to the existing wastewater system. Interest rates on these bonds were 3.89%.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

NOTE 8 - LONG-TERM DEBT - Continued

Revenue Bonds/Certificates of Obligation - continued

Revenue and certificates of obligation payable from business-type activities at September 30, 2018, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/16
		Issued	Maturity	Callable	
Certificates of Obligation:					
Combination Tax and Revenue, Series 2004	2.75 - 5.70	2004	2025		\$ 235,000
Combination Tax and Revenue, Series 2011	3.89	2011	2031	2020	<u>570,000</u>
Total					<u>\$ 805,000</u>

Revenue bonds and certificates of obligation transactions for the year ended September 30, 2018 were as follows:

Bonds outstanding, October 1, 2017	\$ 860,000
Maturities	( <u>55,000</u> )
Bonds outstanding, September 30, 2018	<u>\$ 805,000</u>

The following is a summary of revenue and certificates of obligation bond requirements for business type activities by year as of September 30, 2018:

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2019	\$ 65,000	\$ 34,361	\$ 99,361
2020	65,000	31,409	96,409
2021	65,000	28,428	93,428
2022	70,000	25,277	95,277
2023	75,000	21,965	96,965
2024-2028	300,000	63,537	363,537
2029-2031	<u>165,000</u>	<u>13,226</u>	<u>178,226</u>
Total	<u>\$ 805,000</u>	<u>\$ 218,203</u>	<u>\$ 1,023,203</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 8 - LONG-TERM DEBT** - Continued

Transactions for the year ended September 30, 2018 are summarized as follows:

	<u>Balance</u> <u>10/01/17</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09/30/18</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Type Activities:</b>					
Certificates of obligation	\$ 1,335,000	\$	\$ 110,000	\$ 1,225,000	\$ 105,000
Notes payable	347,433		42,722	304,711	47,507
Capital lease*		375,690		375,690	19,413
Premium	34,064		2,290	31,774	2,290
Net pension liability**	609,922	371,611	551,122	430,411	
Total OPEB liability***	<u>48,039</u>	<u>8,580</u>	<u>224</u>	<u>56,395</u>	
 Total governmental activities	 <u>2,374,458</u>	 <u>755,881</u>	 <u>706,358</u>	 <u>2,423,981</u>	 <u>174,210</u>
 <b>Business Type Activities:</b>					
Certificates of obligation	860,000		55,000	805,000	65,000
Capital lease*	443,714		56,264	387,450	58,486
Net pension liability**	102,529	62,430	94,975	69,984	
Total OPEB liability***	<u>8,451</u>	<u>1,509</u>	<u>39</u>	<u>9,921</u>	<u>-0-</u>
 Total business type activities	 1,414,694	 63,939	 206,278	 1,272,355	 123,486
 <b>Less Portion Payable from Restricted Assets:</b>					
Certificates of obligation	<u>55,000</u>	<u>65,000</u>	<u>55,000</u>	<u>65,000</u>	<u>65,000</u>
 Net business-type activities	 <u>1,359,694</u>	 <u>( 1,061)</u>	 <u>151,278</u>	 <u>1,207,355</u>	 <u>58,486</u>
 Total government (net)	 <u>\$ 3,734,152</u>	 <u>\$ 754,820</u>	 <u>\$ 857,636</u>	 <u>\$ 3,631,336</u>	 <u>\$ 232,696</u>

\*See Note 9 for capital lease.

\*\*See Notes 11 and 12 for net pension liability.

\*\*\*See Note 13 for total OPEB liability.

**NOTE 9 - LEASES**

**Capital Lease**

In January 2014, the City entered into \$ 600,000 Equipment Lease Purchase Agreement with Green Campus Partners, LLC under lease classified as capital lease. The interest rate related to the lease obligation is 3.95% and the maturity date is January 2024. The City will have the option to purchase the Equipment, upon giving written notice to Lessor at least 30 days before the date of purchase and may exercise the option on or after January 31, 2020. During the year ended September 30, 2018, \$ 56,264 of lease expenses and \$ 17,527 of interest expenses related to this lease were paid.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 9 - LEASES** - Continued

**Capital Lease** - continued

The following is a schedule showing the future minimum lease payments:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2019	\$ 58,486	\$ 15,304	\$ 73,790
2020	60,796	12,994	73,790
2021	63,198	10,593	73,791
2022	65,694	8,096	73,790
2023	68,289	5,501	73,790
2024	<u>70,987</u>	<u>2,804</u>	<u>73,791</u>
Total	<u>\$ 387,450</u>	<u>\$ 55,292</u>	<u>\$ 442,742</u>

In November 2017, the City entered into \$ 375,690 Equipment Lease Purchase Agreement with Community First National Bank under lease classified as capital lease. The interest rate related to the lease obligation is 3.54% and the maturity date is November 2032. The City will have the option to purchase the Equipment, upon giving written notice to Lessor at least 30 days before the date of purchase. During the year ended September 30, 2018, no lease expenses and interest expenses related to this lease were paid.

The following is the note repayment schedule as of September 30, 2018:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2019	\$ 19,413	\$ 13,299	\$ 32,712
2020	20,100	12,612	32,712
2021	20,812	11,901	32,713
2022	21,548	11,164	32,712
2023	22,311	10,401	32,712
2024-2028	123,976	39,584	163,560
2029-2032	<u>147,530</u>	<u>16,031</u>	<u>163,561</u>
Total	<u>\$ 375,690</u>	<u>\$ 114,992</u>	<u>\$ 490,682</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

NOTE 9 - LEASES - Continued

Operating Leases

The City leases copiers each year. The lease is considered for accounting purposes to be an operating lease. The lease is on a month-to-month basis. Total governmental activities lease expenditures for the year ended September 30, 2018 were \$ 5,800.

On February 26, 2010, the City's Enterprise Fund entered into an interlocal waste water transmission line lease agreement, an operating lease, with the City of Clute. The lease requires quarterly payments on January 15, April 15, July 15, and October 15 of each year from 2010 to 2025. The lease requires total payments of \$ 2,413,627 with varying quarterly payment. During the year ended September 30, 2018 the business-type activities reported expenses in the amount of \$ 137,522. The following are the minimal lease payments required under this lease:

<u>Year Ending</u> <u>September 30,</u>	<u>Total</u> <u>Requirements</u>
2019	\$ 139,087
2020	140,987
2021	142,953
2022	144,989
2023	147,095
2024-2026	<u>338,832</u>
Total	<u>\$ 1,053,943</u>

NOTE 10 - JOINT OPERATIONS

The City is party to an agreement with the City of Clute to share costs associated with the operation of a sewer treatment plant. The percentage for sharing the operating expenses (excluding maintenance and capital outlay) is determined based upon the metered flow of wastewater for each City. For the year ended September 30, 2018, the City of Richwood's portion of these expenses was determined to be 21.04%, which amounted to \$ 213,056. Further, the City of Richwood shares in 25.00% of maintenance costs (including capital acquisitions) which amounted to \$ 68,610 for the year ended September 30, 2018. The City of Clute maintains both budgetary and accounting responsibility over these operations.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 11 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN**

**A. Plan Description**

The City participates as one of 883 plans in the nontraditional, join 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.tmr.com](http://www.tmr.com).

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

**B. Benefits Provided**

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. The plans also provide death benefits and disability benefits. Effective January 1, 2002, members are vested after 5 years. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

**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	18
Inactive employees entitled to but not yet receiving benefits	16
Active employees	<u>23</u>
	57

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 11 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued

#### C. 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 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.24% and 11.23 % in the calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$ 140,265, and were equal to the required contributions.

#### D. 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.

#### Actuarial Assumptions

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

Inflation	2.50% per year
Overall payroll growth	3.00% 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 Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Health Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

### NOTE 11 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100%	

#### 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 benefits 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.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 11 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued**

*Changes in the Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2016	\$ 3,794,533	\$ 3,129,852	\$ 664,681
Changes for the Year:			
Service cost	167,945		167,945
Interest	253,787		253,787
Difference between expected and actual experience	5,669		5,669
Contributions – employer		147,798	( 147,798)
Contributions – employee		65,747	( 65,747)
Net investment income		433,788	( 433,788)
Benefit payment, including refunds of employee contributions	( 237,383)	( 237,383)	
Administrative expense		( 2,248)	2,248
Other changes		( 114)	114
Net changes	<u>190,018</u>	<u>407,588</u>	<u>( 217,570)</u>
Balance at 12/31/2017	<u>\$ 3,984,551</u>	<u>\$ 3,537,440</u>	<u>\$ 447,111</u>

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

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

	1% Decrease In Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase In Discount Rate (7.75%)
City's Net Pension Liability	\$ 968,092	\$ 447,111	\$ 18,868

*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](http://www.tmrs.com).

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 11 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued**

**E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2018, the City recognized pension expense of \$ 127,057.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 8,837	\$ 17,856
Difference between projected and actual earnings	85,938	178,203
Differences in assumption changes	4,844	
Contributions subsequent to the measurement date	<u>100,948</u>	<u>          </u>
Total	<u>\$ 200,567</u>	<u>\$ 196,059</u>

\$ 100,948 reported as deferred outflows of resources related to pensions relating from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30,</u>	
2019	\$( 7,740)
2020	( 1,566)
2021	( 42,644)
2022	( 44,490)

**NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM**

**A Plan Description**

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. The System issues a standalone financial report that is available to the public at [www.tesrs.org](http://www.tesrs.org).

## CITY OF RICHWOOD

Richwood, Texas

### NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

#### NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - Continued

Of the nine member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. On August 31, 2017, there were 235 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

#### B Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

#### C Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$ 36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

## CITY OF RICHWOOD

Richwood, Texas

### NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

#### NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - Continued

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the board to be 2% of the Part One contributions beginning September 1, 2017.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

#### D Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2017, total contributions of \$ 5,012,131 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated \$ 1,583,825 for the fiscal year ending August 31, 2017.

The City is not an employer of the members under the TESRS Plan. However, the City makes contributions directly to the TESRS Plan for members of the participating fire department in the City. During the measurement period of 2017 for fiscal 2018 reporting, the amount of the City's contributions recognized by the plan was \$ 10,725.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in subsection below.

The most recently completed biennial actuarial valuation as of August 31, 2016 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$ 725,000 each year to pay for part of the System's administrative expenses.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - Continued**

**E Net Pension Liability**

The System's net pension liability was measured as of August 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2016 and rolled forward to August 31, 2017. The City's proportionate share of net pension liability was \$ 53,284.

**Actuarial Assumptions**

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	N/A
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components 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 (currently 4.97%) and by adding expected inflation (3.0%). In addition, the final 7.75% assumption was selected by "rounding down" and thereby reflected a reduction of 0.22% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Equities:		
Large cap domestic	32%	5.72%
Small cap domestic	10	5.96
Development international	21	6.21
Emerging markets	6	7.18
Master limited partnership	5	7.61
Fixed Income:		
Domestic	21	1.61
International	5	1.81
Cash	<u>0</u>	0.00
Total	100%	
Weighted average		4.97%

**CITY OF RICHWOOD**

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

**NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2016 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. 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.

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, 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 (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease In Discount Rate <u>(6.75%)</u>	Discount Rate <u>(7.75%)</u>	1% Increase In Discount Rate <u>(8.75%)</u>
City's Net Pension Liability	\$ 99,503	\$ 53,284	\$ 24,126

**F Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension**

At September 30, 2018, 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	\$ 57	\$
Differences between projected and actual earnings	4,969	
Differences in assumption changes	778	
Contributions subsequent to the measurement date	<u>8,480</u>	
Total	<u>\$ 14,284</u>	<u>\$ -0-</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - Continued**

\$ 8,480 reported as deferred outflows of resources related to pensions relating from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u> <u>September 30,</u>		
2019	\$	2,507
2020		4,599
2021	(	220)
2022	(	1,082)

For the year ended September 30 2018, the City recognized pension expense of \$ 11,180.

**NOTE 13 - DEFINED OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN**

**A. Plan Description**

The City also participates in the defined benefit group-term life insurance plan operated by 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 SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75, paragraph 4b and there are no assets accumulated for OPEB. As such the SDBF is considered to be a single employer unfunded OPEB plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

**B. Benefits Provided**

Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. 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). The death benefit for retirees is considered an other employment benefit and is a fixed amount of \$7,500.

**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 currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>23</u>
	38

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 13 - DEFINED OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN - Continued**

**C. Contributions**

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.20% and 0.22% in the calendar years 2017 and 2018, of which 0.05% and 0.06% represented the retiree-only portion for each year, as a percentage of annual covered payroll. 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 prefund retiree term life insurance during employees' entire careers. The City's contribution to the SDBF for the year ended September 30, 2018 was \$ 1,849 representing contributions for both active and retiree coverage which equaled the required contributions. The City's contribution for retiree portion as of September 30, 2018 was \$ 369.

**D. Total OPEB Liability**

The City's total OPEB liability of \$ 66,316 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

**Actuarial Assumptions and Other Inputs**

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.5% including inflation
Discount rate	3.31%
Investment Rate of Return	A statutory interest credit of 5% is allocated annually and is not dependent on investment earnings.

Salary increases were based on a service-related table. Mortality rates for service retirees were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled retirees, the gender-distinct RP2000 Combined Health Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis by 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 from December 31, 2010 to December 31, 2014.

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

**CITY OF RICHWOOD**

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

**NOTE 13 - DEFINED OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN - Continued**

Changes in the Total OPEB Liability

	<u>Total OPEB Liability (a)</u>
Balance at 12/31/2016	\$ 56,490
Changes for the Year:	
Service cost	2,103
Interest	2,170
Changes of benefit terms	0
Difference between expected and actual experience	0
Changes in assumption or other inputs	5,816
Benefit payments	<u>( 263)</u>
Net changes	<u>9,826</u>
Balance at 12/31/2017	\$ <u>66,316</u>

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what's the City's total 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 <u>(2.31%)</u>	Discount Rate <u>(3.31%)</u>	1% Increase In Discount Rate <u>(4.31%)</u>
City's Total OPEB Liability	\$ 81,314	\$ 66,316	\$ 54,870

**E. 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 \$ 5,205.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in assumption changes	\$ 4,884	\$
Contributions subsequent to the measurement date	<u>1,349</u>	<u>          </u>
Total	\$ <u>6,233</u>	\$ <u>0</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 13 - DEFINED OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN - Continued**

\$ 1,349 reported as deferred outflows of resources related to OPEB relating from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended</u> <u>September 30,</u>		
2019	\$	932
2020		932
2021		932
2022		932
2023		932
Thereafter		224

**NOTE 14 - RISK POOL PARTICIPATION**

The City is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of liability, property, worker's compensation, and medical insurance. The City pays annual premiums to the pool for the coverages stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Property and liability insurance provide varying and appropriate coverage, with most claims subject to a \$ 5,000 deductible. Workers compensation claims are managed by the Texas Municipal League. In addition, the City has designated a portion of the General Fund fund balance for insurance contingencies, to handle deductibles and other associated costs. For medical insurance claims, the City pays insurance premiums for full coverage and has no liability for claims filed by employees or their covered dependents.

**NOTE 15 - LITIGATION**

The City currently is not involved in any nor is the City aware of any threatened litigation, claims, or assessments.

**NOTE 16 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

During the year ended September 30, 2017, expenditures exceeded appropriations on the funds as follows:

Debt Services Fund	\$	500
Enterprise Fund	\$	195,686

The budget was not amended; however, the City Council approved these expenditures as required by City budget procedures. The variance in the Debt Services Fund was resulted from fees charged from the bank and the variance in the Enterprise Fund was mainly resulted from under budget on depreciation.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2018

**NOTE 17 - ECONOMIC DEVELOPMENT AGREEMENTS**

On December 9, 2014 the City entered into an Economic Development Agreement with 210 Development Group, LLC (“the Developer”) in accordance with Chapter 380 of the Texas Local Government Code. Under terms of the agreement, the Developer is expected to construct and operate an apartment complex and the City agrees to provide the Developer an economic incentive for the period of five years commencing with payment of ad valorem taxes on the property by the Developer. For the year ending September 30, 2018, the City made a rebate payment of \$ 147,103 under this agreement, all of which was paid during the fiscal year 2018.

On January 26, 2016 the City entered into an Economic Development Agreement with Jerry Crawford (“Crawford”) in accordance with Chapter 380 of the Texas Local Government Code. Under terms of the agreement, Crawford is expected to operate and continue an existing business at the property known as Crawford’s Furniture and Appliance, Inc. and the City agrees to provide Crawford an economic incentive for the period of ten years commencing with payment of ad valorem taxes on the property by Crawford. For the year ending September 30, 2018, the City made a rebate payment of \$ 7,238 under this agreement, all of which was paid during the fiscal year 2018.

On April 10, 2017 the City entered into an Economic Development Agreement with Big Kountry Shooting, LLC (“BKS”) in accordance with Chapter 380 of the Texas Local Government Code. Under terms of the agreement, BKS is expected to construct and operate an indoor shooting range within the city limits of the City and the City agrees to provide BKS an economic incentive for the period of two years commencing with payment of ad valorem taxes on the property by BKS. For the year ending September 30, 2018, no rebate payments made by the City.

**NOTE 18 - EVALUATION OF SUBSEQUENT EVENTS**

The City has evaluated subsequent events through February 26, 2019, the date which the financial statements were available to be issued.

On February 11, 2019, the council of the City amended the loan balance between the governmental funds and the enterprise fund to \$ 456,421 and also decided to only require repayment and charge interest in fiscal year 2019 and repel the remaining repayment schedule.

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 11,578	\$ 8,672	\$ 20,250

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF RICHWOOD**

Richwood, Texas

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL -  
GENERAL FUND**

For the Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 1,468,091	\$ 1,468,091	\$ 1,552,047	\$ 83,956
Sales taxes	657,644	657,644	759,945	102,301
Franchise fees	177,189	177,189	189,135	11,946
Revenue producing facilities	12,380	12,380	15,352	2,972
Fines and fees	155,300	155,300	129,609	( 25,691)
Licenses and permits	70,200	70,200	86,684	16,484
Investment income	3,275	3,275	15,922	12,647
Intergovernmental	72,095	72,095	24,097	( 47,998)
Miscellaneous	43,100	43,100	95,859	52,759
Total revenues	<u>2,659,274</u>	<u>2,659,274</u>	<u>2,868,650</u>	<u>209,376</u>
Expenditures:				
Current:				
General administration	725,555	725,555	564,351	161,204
Judicial	130,745	130,745	132,894	( 2,149)
Police department	894,016	894,016	983,076	( 89,060)
Fire department	155,770	155,770	149,560	6,210
City maintenance	217,375	243,929	191,400	52,529
Streets and drainage	58,000	58,000	50,920	7,080
Parks and recreation	40,994	40,994	45,923	( 4,929)
Code enforcement	53,009	53,009	48,641	4,368
Inspection	109,588	109,588	106,043	3,545
Emergency	86,231	86,231	47,924	38,307
Special purpose	18,400	18,400		18,400
Capital outlay	467,007	467,007	559,967	( 92,960)
Debt Service:				
Principal			30,784	( 30,784)
Interest and agent fees			3,102	( 3,102)
Total expenditures	<u>2,956,690</u>	<u>2,983,244</u>	<u>2,914,585</u>	<u>68,659</u>
Excess of revenues over (under) expenditures	<u>( 297,416)</u>	<u>( 323,970)</u>	<u>( 45,935)</u>	<u>278,035</u>

(continued)

**CITY OF RICHWOOD**

Richwood, Texas

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL -  
GENERAL FUND - Continued**

For the Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Resources (Uses):				
Proceeds of capital lease	\$	\$	\$ 375,690	\$ 375,690
Sale of capital assets			7,538	7,538
Transfers in	86,871	86,871	86,871	-0-
Transfers out	( 83,936)	( 83,936)	( 83,936)	-0-
Total other financing resources	<u>2,935</u>	<u>2,935</u>	<u>386,163</u>	<u>383,228</u>
Net changes in fund balances	( 294,481)	( 321,035)	340,228	661,263
Fund balances, beginning (restated)	<u>1,434,197</u>	<u>1,434,197</u>	<u>1,434,197</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 1,139,716</u>	<u>\$ 1,113,162</u>	<u>\$ 1,774,425</u>	<u>\$ 661,263</u>

**CITY OF RICHWOOD**  
Richwood, Texas

**TMRS SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE LAST TEN YEARS<sup>(1)</sup>  
SEPTEMBER 30, 2018 WITH MEASUREMENT DATE OF DECEMBER 31, 2017**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total Pension Liability</b>				
Service cost	\$ 167,945	\$ 137,179	\$ 123,074	\$ 115,123
Interest (on the Total Pension Liability)	253,787	242,051	236,704	225,550
Difference between expected and actual experience	5,669	8,654	( 43,807)	( 98,725)
Changes in assumptions			31,743	
Benefit payments, including refunds of employee contributions	<u>( 237,383)</u>	<u>( 221,402)</u>	<u>( 79,218)</u>	<u>( 93,958)</u>
Net Change in Total Pension Liability	190,018	166,482	268,496	147,990
Total Pension Liability – Beginning	<u>3,794,533</u>	<u>3,628,051</u>	<u>3,359,555</u>	<u>3,211,565</u>
Total Pension Liability – Ending (a)	<u>\$ 3,984,551</u>	<u>\$ 3,794,533</u>	<u>\$ 3,628,051</u>	<u>\$ 3,359,555</u>
<b>Plan Fiduciary Net Position</b>				
Contributions – Employer	\$ 147,798	\$ 118,168	\$ 121,452	\$ 108,286
Contributions – Employee	65,747	53,711	50,690	46,276
Net Investment Income	433,788	201,477	4,259	152,992
Benefit payments, including refunds of employee contributions	( 237,383)	( 221,402)	( 79,218)	( 93,958)
Administrative expense	( 2,248)	( 2,275)	( 2,594)	( 1,597)
Other	<u>( 114)</u>	<u>( 123)</u>	<u>( 128)</u>	<u>( 131)</u>
Net Change in Plan Fiduciary Net Position	407,588	149,556	94,461	211,868
Plan Fiduciary Net Position – Beginning	<u>3,129,852</u>	<u>2,980,296</u>	<u>2,885,835</u>	<u>2,673,967</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 3,537,440</u>	<u>\$ 3,129,852</u>	<u>\$ 2,980,296</u>	<u>\$ 2,885,835</u>
<b>Net Pension Liability (a-b)</b>	<u>\$ 447,111</u>	<u>\$ 664,681</u>	<u>\$ 647,755</u>	<u>\$ 473,720</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	<u>88.78%</u>	<u>82.48%</u>	<u>82.15%</u>	<u>85.90%</u>
Covered Payroll	<u>\$ 1,314,122</u>	<u>\$ 1,074,228</u>	<u>\$ 1,013,793</u>	<u>\$ 925,514</u>
Net Pension Liability as a Percentage of Covered Payroll	<u>34.02%</u>	<u>61.88%</u>	<u>63.89%</u>	<u>51.18%</u>

Notes to Schedule:  
N/A

<sup>(1)</sup> This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

**CITY OF RICHWOOD**  
Richwood, Texas

**TMRS SCHEDULE OF CONTRIBUTIONS  
FOR THE LAST TEN YEARS<sup>(1)</sup>  
SEPTEMBER 30, 2018**

	2018	2017	2016	2015
Actuarially determined contribution	\$ 138,416	\$ 139,288	\$ 121,859	\$ 119,353
Contributions in relation to the actuarially determined contribution	138,416	139,288	121,859	119,353
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered payroll	\$ 1,231,122	\$ 1,244,815	\$ 1,084,021	\$ 971,017
Contributions as a percentage of covered payroll	11.24%	11.19%	11.24%	12.29%

**Notes to Schedule of Contributions**

**Valuation date**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial cost method	Entry age normal
Amortization method	Level Percentage of Payroll, Closed
Remaining Amortization period	29 years
Asset valuation method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary increases	3.50% 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 generated basis with scale BB

**Other Information**

Notes There were no benefit changes during the year.

<sup>(1)</sup> This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

**CITY OF RICHWOOD**

Richwood, Texas

TESRS SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AND RELATED RATIOS  
THE CITY AS NON-EMPLOYER CONTRIBUTION ENTITY  
FOR THE LAST TEN YEARS<sup>(1)</sup>  
SEPTEMBER 30, 2018 WITH MEASUREMENT DATE OF AUGUST 31, 2017

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.2220%	0.164%	0.177%	0.192%
City' proportionate share of the net pension liability (asset)	\$ 53,284	\$ 47,770	\$ 47,246	\$ 34,890
Plan fiduciary position as a percentage of total pension liability	81.40%	76.30%	76.90%	83.50%

Notes to Schedule:

N/A

<sup>(1)</sup> This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

**CITY OF RICHWOOD**  
Richwood, Texas

TESRS SCHEDULE OF REQUIRED CONTRIBUTIONS  
THE CITY AS NON-EMPLOYER CONTRIBUTION ENTITY  
FOR THE LAST TEN YEARS<sup>(1)</sup>  
SEPTEMBER 30, 2018

	2018	2017	2016	2015
Contractually required contribution	\$ 12,868	\$ 13,725	\$ 7,500	\$ 7,800
Contributions in relation to the contractually required contribution	<u>12,868</u>	<u>13,725</u>	<u>7,500</u>	<u>7,800</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Notes to Schedule:  
N/A

(1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

**CITY OF RICHWOOD**  
Richwood, Texas

**TMRS SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
FOR THE LAST TEN YEARS<sup>(1)</sup>  
SEPTEMBER 30, 2018 WITH MEASUREMENT DATE OF DECEMBER 31, 2017**

	2018
Service cost	\$ 2,103
Interest (on the Total OPEB Liability)	2,170
Changes in assumptions or other input	5,816
Benefit payments	( 263 )
 Net Change in Total OPEB Liability	 9,826
 Total OPEB Liability – Beginning	 <u>56,490</u>
 Total OPEB Liability – Ending	 <u>\$ 66,316</u>
 Covered Payroll	 <u>\$ 1,314,122</u>
 Total OPEB Liability as a Percentage of Covered Payroll	 <u>5.05%</u>

Notes to Schedule:

Changes in assumptions or other inputs reflect the effects of changes in the discount rates each period. The following are the discount rates used in each period:

2018	3.31%
2017	3.78%

(1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, only available information is shown.

**COMBINING AND INDIVIDUAL  
FUND STATEMENTS AND SCHEDULES**

**CITY OF RICHWOOD**

Richwood, Texas

**COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS**

September 30, 2018

	Special Revenue		Total
	Beautification	Transportation	Nonmajor
	Fund	Fund	Governmental
			Funds
<u>Assets and Deferred Outflows Of Resources</u>			
Assets:			
Cash and temporary investments	\$ 27,150	\$ 157,204	\$ 184,354
Accrued interest		3	3
Due from other funds	1,305	78,081	79,386
 Total assets	 28,455	 235,288	 263,743
Deferred Outflows of Resources:			
Deferred outflows of resources			
 Total deferred outflows of resources	 -0-	 -0-	 -0-
 Total assets and deferred outflows of resources	 \$ 28,455	 \$ 235,288	 \$ 263,743
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 675	\$ 10,147	\$ 10,822
 Total liabilities	 675	 10,147	 10,822
Deferred Inflows of Resources:			
Deferred inflows of resources			
 Total deferred inflows of resources	 -0-	 -0-	 -0-
Fund Balances:			
Restricted:			
Street beautification	27,780		27,780
Transportation		225,141	225,141
 Total fund balances	 27,780	 225,141	 252,921
 Total liabilities, deferred inflows of resources, and fund balances	 \$ 28,455	 \$ 235,288	 \$ 263,743

**CITY OF RICHWOOD**

Richwood, Texas

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2018

	Special Revenue		Total Nonmajor Governmental Funds
	Beautification Fund	Transportation Fund	
Revenues:			
Transportation	\$	\$ 137,671	\$ 137,671
Investment earning		1,123	1,123
Miscellaneous	<u>14,508</u>		<u>14,508</u>
Total revenues	<u>14,508</u>	<u>138,794</u>	<u>153,302</u>
Expenditures:			
Current:			
General administration	9,897		9,897
Streets and drainage		<u>53,019</u>	<u>53,019</u>
Total expenditures	<u>9,897</u>	<u>53,019</u>	<u>62,916</u>
Excess of revenues over expenditures	4,611	85,775	90,386
Transfer in	<u>1,000</u>		<u>1,000</u>
Net change sin fund balances	5,611	85,775	91,386
Fund balances – beginning	<u>22,169</u>	<u>139,366</u>	<u>161,535</u>
Fund balances – ending	<u>\$ 27,780</u>	<u>\$ 225,141</u>	<u>\$ 252,921</u>

**CITY OF RICHWOOD**

Richwood, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL -  
DEBT SERVICE FUND**

For the Year Ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 174,211	\$ 174,211	\$ 176,050	\$ 1,839
Interest			430	430
Total revenues	<u>174,211</u>	<u>174,211</u>	<u>176,480</u>	<u>2,269</u>
Expenditures:				
Debt Service:				
Principal	121,938	121,938	121,938	
Interest and agent fees	<u>52,273</u>	<u>52,273</u>	<u>52,773</u>	( 500)
Total expenditures	<u>174,211</u>	<u>174,211</u>	<u>174,711</u>	( 500)
Net changes in fund balances	-0-	-0-	1,769	1,769
Fund balances, beginning	<u>106,860</u>	<u>106,860</u>	<u>106,860</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 106,860</u>	<u>\$ 106,860</u>	<u>\$ 108,629</u>	<u>\$ 1,769</u>

**CITY OF RICHWOOD**

Richwood, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL -  
BEAUTIFICATION FUND**

For the Year Ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Miscellaneous	\$ <u>14,800</u>	\$ <u>14,800</u>	\$ <u>14,508</u>	\$ <u>(292)</u>
Total revenues	<u>14,800</u>	<u>14,800</u>	<u>14,508</u>	<u>(292)</u>
Expenditures:				
General administration	<u>16,000</u>	<u>16,000</u>	<u>9,897</u>	<u>6,103</u>
Total expenditures	<u>16,000</u>	<u>16,000</u>	<u>9,897</u>	<u>6,103</u>
Excess of revenues over expenditures	( <u>1,200</u> )	( <u>1,200</u> )	<u>4,611</u>	<u>5,811</u>
Transfer in	<u>1,200</u>	<u>1,200</u>	<u>1,000</u>	<u>(200)</u>
Net changes in fund balances	<u>-0-</u>	<u>-0-</u>	<u>5,611</u>	<u>5,611</u>
Fund balances, beginning	<u>22,169</u>	<u>22,169</u>	<u>22,169</u>	<u>-0-</u>
Fund balances, ending	\$ <u>22,169</u>	\$ <u>22,169</u>	\$ <u>27,780</u>	\$ <u>5,611</u>

**CITY OF RICHWOOD**

Richwood, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL -  
TRANSPORTATION FUND**

For the Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Transportation	\$ 105,000	\$ 105,000	\$ 137,671	\$ 32,671
Investment earning			1,123	1,123
Total revenues	<u>105,000</u>	<u>105,000</u>	<u>138,794</u>	<u>33,794</u>
Expenditures:				
Street and drainage	<u>105,000</u>	<u>105,000</u>	<u>53,019</u>	<u>51,981</u>
Total expenditures	<u>105,000</u>	<u>105,000</u>	<u>53,019</u>	<u>51,981</u>
Net changes in fund balances	-0-	-0-	85,775	85,775
Fund balances, beginning	<u>139,366</u>	<u>139,366</u>	<u>139,366</u>	<u>-0-</u>
Fund balances, ending	<u><u>\$ 139,366</u></u>	<u><u>\$ 139,366</u></u>	<u><u>\$ 225,141</u></u>	<u><u>\$ 85,775</u></u>

# CITY OF RICHWOOD

Richwood, Texas

## SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL - PROPRIETARY FUND - ENTERPRISE FUND

For the Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Water fees	\$ 898,070	\$ 898,070	\$ 861,690	\$( 36,380)
Sewer fees	797,064	797,064	760,933	( 36,131)
Garbage fees	281,396	281,396	260,622	( 20,774)
Delinquent charges	23,000	23,000	29,511	6,511
Tap and reconnect fees	18,200	18,200	24,139	5,939
Miscellaneous	6,000	6,000	13,723	7,723
Total revenues	<u>2,023,730</u>	<u>2,023,730</u>	<u>1,950,618</u>	<u>( 73,112)</u>
Operating Expenses:				
Personnel costs	359,522	259,917	260,887	( 970)
Sewer treatment plant operations	455,750	455,750	420,855	34,895
Water costs – BWA	262,331	262,331	261,614	717
Sanitation	257,320	257,320	252,098	5,222
Utilities and telephone	50,100	50,100	53,888	( 3,788)
Repairs and maintenance	122,404	122,404	110,529	11,875
Supplies	33,000	33,000	37,525	( 4,525)
Miscellaneous	165,966	165,966	90,310	75,656
Operating expenses before depreciation	1,706,393	1,606,788	1,487,706	119,082
Depreciation			314,768	( 314,768)
Total operating expenses	<u>1,706,393</u>	<u>1,606,788</u>	<u>1,802,474</u>	<u>( 195,686)</u>
Operating income	<u>317,337</u>	<u>416,942</u>	<u>148,144</u>	<u>( 268,798)</u>
Non-Operating Revenues (Expenses):				
Investment income	500	500	1,908	1,408
Interest expense and agent fees	( 87,946)	( 87,946)	( 53,099)	34,847
Total non-operating revenues (expenses)	<u>( 87,446)</u>	<u>( 87,446)</u>	<u>( 51,191)</u>	<u>36,255</u>
Income before contributions and operating transfers	229,891	329,496	96,953	( 232,543)
Transfer In	82,936	82,936	82,936	-0-
Transfer out	( 86,871)	( 86,871)	( 86,871)	-0-
Change in net position	225,956	325,561	93,018	( 232,543)
Net position, beginning	<u>4,992,761</u>	<u>4,992,761</u>	<u>4,992,761</u>	<u>-0-</u>
Net position, ending	<u>\$ 5,218,717</u>	<u>\$ 5,318,322</u>	<u>\$ 5,085,779</u>	<u>\$( 232,543)</u>

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