

CITY OF HALLSVILLE, TEXAS
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
SEPTEMBER 30, 2017

CITY OF HALLSVILLE, TEXAS

CITY COUNCIL

<u>Name</u>	<u>Address</u>	<u>Usual Occupation</u>
Steve Eitelman, Mayor	P. O. Box 1137 Hallsville, Texas	Owner - Eitelman Insurance Agency
Dan Herrington, Mayor Pro-tem	130 Rutland Hallsville, Texas	Senior Vice President - Guaranty Bank and Trust

Aldermen

Mike Bailey	101 Winifred's Way Hallsville, Texas	Sales Representative - Nucor Corporation
Frankie Dunagan	511 Laurel Lane Hallsville, Texas	Safety Trainer - Warfab Corporation
Charlie Hunt	110 Mossy Creek Hallsville, Texas	Engineer - Texas Eastman
Brandon Sheffield	110 Bell Street Hallsville, Texas	Manager - Sonic Drive-In

CITY OF HALLSVILLE, TEXAS

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KNUCKOLS • DUVALL • HALLUM & CO. *A Professional Corporation*

CERTIFIED PUBLIC ACCOUNTANTS

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POST OFFICE BOX 1315
MARSHALL, TEXAS 75670
(903) 938-0331 • FAX (903) 938-0334

INDEPENDENT AUDITORS' REPORT

City Council
City of Hallsville, Texas

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

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of City of Hallsville, Texas, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 9, Schedule of Changes in Net Pension Liability and Related Ratios, and Schedule of Contributions 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 inquires 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 City of Hallsville, Texas' basic financial statements. The supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental schedule is the responsibility of management and was derived from and relates 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 supplemental schedule is 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 14, 2018, on our consideration of City of Hallsville, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hallsville, Texas' internal control over financial reporting and compliance.

Respectfully submitted,

KNUCKOLS, DUVAL, HALLUM & CO.


Certified Public Accountants

Marshall, Texas

February 14, 2018

KNUCKOLS • DUVALL • HALLUM & CO. *A Professional Corporation*

CERTIFIED PUBLIC ACCOUNTANTS

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

City Council
City of Hallsville, Texas

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Hallsville, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Hallsville, Texas' basic financial statements, and have issued our report thereon dated February 14, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

KNUCKOLS, DUVAL, HALLUM & CO.



Certified Public Accountants

Marshall, Texas

February 14, 2018

CITY OF HALLSVILLE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2017

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Hallsville, Texas (City), discuss and analyze the City's financial performance for the year ended September 30, 2017. Please read it in conjunction with the Independent Auditors' Report on page 1, and the City's Basic Financial Statements, which begin on page 10.

USING THIS REPORT

This report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources. For proprietary activities, fund financial statements tell how services of the City were sold to external customers and how the sales revenues covered the expenses of the services.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

REPORTING THE CITY AS A WHOLE

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begin on page 10. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all of the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs and revenues provided by taxpayers (property, sales, and franchise tax revenue). All of the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating.

CITY OF HALLSVILLE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2017

In the Statement of Net Position, the City has two types of activities:

Governmental activities – Most of the City's basic services are reported here, including administrative, police, volunteer fire department, and parks. Property taxes, sales taxes, franchise fees, sanitation fees, and fines finance most of these activities.

Business-type activities – The City charges a fee to "customers" to help it cover all or most of the cost of certain services it provides. The City's water and sewer activities are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds – not the City as a whole. 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 of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two 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 Balance for the General Fund and the Debt Service Fund, both of which are considered to be major funds.

Proprietary Funds – The City maintains one type of proprietary fund, which is the enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for the water and sewer activities.

CITY OF HALLSVILLE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2017

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indication of a government's financial position. In the case of the City of Hallsville, assets exceeded liabilities by \$6,929,514 as of September 30, 2017. Approximately 28% of the City's net position is unrestricted.

**TABLE I
CITY OF HALLSVILLE, TEXAS' NET POSITION**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	966,034	1,083,528	3,180,694	3,508,979	4,146,728	4,592,507
Deferred Outflows	49,327	26,723	-	-	49,327	26,723
Capital Assets	<u>2,723,013</u>	<u>2,476,299</u>	<u>7,335,248</u>	<u>7,031,056</u>	<u>10,058,261</u>	<u>9,507,355</u>
Total Assets	<u>3,738,374</u>	<u>3,586,550</u>	<u>10,515,942</u>	<u>10,540,035</u>	<u>14,254,316</u>	<u>14,126,585</u>
Long-Term Liabilities	1,451,557	1,812,793	5,581,350	5,763,750	7,032,907	7,576,543
Deferred Inflows	20,280	1,733	-	-	20,280	1,733
Other Liabilities	<u>46,906</u>	<u>81,585</u>	<u>224,709</u>	<u>295,706</u>	<u>271,615</u>	<u>377,291</u>
Total Liabilities	<u>1,518,743</u>	<u>1,896,111</u>	<u>5,806,059</u>	<u>6,059,456</u>	<u>7,324,802</u>	<u>7,955,567</u>
Net Position:						
Invested in Capital Assets, Net of Related Debt	1,456,177	851,563	3,500,834	3,684,564	4,957,011	4,536,127
Restricted for: Debt Service	22,816	14,091	-	-	22,816	14,091
Unrestricted	<u>740,638</u>	<u>824,785</u>	<u>1,209,049</u>	<u>796,015</u>	<u>1,949,687</u>	<u>1,620,800</u>
Total Net Position	<u>2,219,631</u>	<u>1,690,439</u>	<u>4,709,883</u>	<u>4,480,579</u>	<u>6,929,514</u>	<u>6,171,018</u>

CITY OF HALLSVILLE, TEXAS**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2017****TABLE II
CITY OF HALLSVILLE, TEXAS' CHANGES IN NET POSITION**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue:						
Program Revenues:						
Fees, Fines, & Charges for Serv.	518,612	469,141	1,495,271	1,466,024	2,013,883	1,935,165
Operating Grants & Contributions	918	8,910	-	10,000	918	18,910
General Revenues:						
Property Taxes	849,055	522,067	-	-	849,055	522,067
Sales Taxes	660,358	333,444	-	-	660,358	333,444
Franchise Taxes	81,026	75,959	-	-	81,026	75,959
Investment Earnings	3,747	1,525	307	173	4,054	1,698
Miscellaneous	<u>19,726</u>	<u>12,506</u>	<u>-</u>	<u>2,000</u>	<u>19,726</u>	<u>14,506</u>
Total Revenue	<u>2,133,442</u>	<u>1,423,552</u>	<u>1,495,578</u>	<u>1,478,197</u>	<u>3,629,020</u>	<u>2,901,749</u>
Expenses:						
General Govt. & Public Safety	1,235,737	1,332,059	-	-	1,235,737	1,332,059
Water and Sewer	<u>-</u>	<u>-</u>	<u>1,634,787</u>	<u>1,687,871</u>	<u>1,634,787</u>	<u>1,687,871</u>
Total Expenses	<u>1,235,737</u>	<u>1,332,059</u>	<u>1,634,787</u>	<u>1,687,871</u>	<u>2,870,524</u>	<u>3,019,930</u>
Increase (Decrease) in Net Position Before Transfers	897,705	91,493	(139,209)	(209,674)	758,496	(118,181)
Transfers	<u>(368,513)</u>	<u>(90,000)</u>	<u>368,513</u>	<u>90,000</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	529,192	1,493	229,304	(119,674)	758,496	(118,181)
Net Position at Beginning of Year	<u>1,690,439</u>	<u>1,688,946</u>	<u>4,480,579</u>	<u>4,600,253</u>	<u>6,171,018</u>	<u>6,289,199</u>
Net Position at End of Year	<u>2,219,631</u>	<u>1,690,439</u>	<u>4,709,883</u>	<u>4,480,579</u>	<u>6,929,514</u>	<u>6,171,018</u>

As of September 30, 2017, the City is able to report positive balances in all three categories of net position for the government as a whole.

Governmental Activities - The City's general revenues increased approximately 71% for the year, while general government and public service and safety expenses decreased about 7%. Fees, fines, and charges for services increased approximately 11% this year. Operating grants and contributions decreased over 90% this year. This was due to the Police Department receiving less in law enforcement. Property tax revenue increased 63%, which was due to the fact that the City's property tax assessed values increased 5% from last year and property tax rates increased \$0.738413 per \$100 valuation. Sales taxes revenue increased 98% due to the City increasing the rates from 7.25% to 8.25%.

Business-Type Activities - Business-type activities net position increased by \$229,304 or approximately 5%.

CITY OF HALLSVILLE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS **YEAR ENDED SEPTEMBER 30, 2017**

CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$898,901, which is a decrease over last year's total of \$989,606. Included in this year's change in fund balance is a decrease of \$99,430 in the General Fund. This decrease was mainly due to a decrease in the General Fund for street repairs and improvements.

At the end of the year, unrestricted net position for the enterprise fund was \$1,209,049. Net position for the Water and Sewer Fund increased \$229,304 for the year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had \$16,330,358 invested in a broad range of capital assets. This amount represents a net increase of approximately 7% above last year.

This year's major additions included:

Construction in Progress - General Fund	14,000
Police and Other General Fund Equipment	38,344
Street Improvements	354,984
Water and Sewer System Equipment	16,380
Water and Sewer System Improvements	<u>611,690</u>
Total	<u>1,035,398</u>

Long-Term Debt

At year-end, the City had \$6,780,000 in bonds outstanding versus \$7,060,000 last year - a decrease of \$280,000 or 4%. The General Obligation Bonds are secured by the City's limited ad valorem tax levy.

Also, at year-end, the City had \$68,186 of loans payable outstanding versus \$325,486 from last year - a decrease of \$260,300 or 79%.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

The City's elected officials and administration considered many factors when approving the property tax rate of \$.39189 in September 2017, which consists of \$.158418 for the General Fund and \$.233472 for the Debt Service Fund.

CONTACTING CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's office at 115 W. Main, Hallsville, Texas.

CITY OF HALLSVILLE, TEXAS**GOVERNMENT-WIDE STATEMENT OF NET POSITION**
SEPTEMBER 30, 2017

	PRIMARY GOVERNMENT		
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash on Hand and in Bank	476,629	1,037,271	1,513,900
Investments - Time Certificates of Deposit	479,614	-	479,614
Receivables (Net, Where Applicable, of Allowance for Uncollectibles)	131,063	131,588	262,651
Internal Balances	(121,272)	121,272	-
Restricted Assets:			
Cash on Hand and in Bank	-	1,850,195	1,850,195
Investments - Time Certificates of Deposit	-	40,368	40,368
Capital Assets:			
Land	76,892	180,720	257,612
Construction in Progress	14,000	446,373	460,373
Buildings	454,201	-	454,201
Water and Sewer System	-	11,082,103	11,082,103
Equipment	797,098	702,159	1,499,257
Improvements	139,232	-	139,232
Infrastructure	2,437,580	-	2,437,580
Accumulated Depreciation	(1,195,990)	(5,076,107)	(6,272,097)
TOTAL ASSETS	<u>3,689,047</u>	<u>10,515,942</u>	<u>14,204,989</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Pensions	49,327	-	49,327
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>49,327</u>	<u>-</u>	<u>49,327</u>
LIABILITIES			
Accounts Payable	32,756	49,606	82,362
Accrued Interest Payable	3,340	22,992	26,332
Accrued Liabilities	10,810	-	10,810
Payable From Restricted Assets:			
Accounts Payable	-	25,644	25,644
Customer Deposits	-	126,467	126,467
Noncurrent Liabilities:			
Due Within One Year	165,609	189,350	354,959
Due in More Than One Year	1,101,227	5,392,000	6,493,227
Net Pension Liability (City's Share)	184,721	-	184,721
TOTAL LIABILITIES	<u>1,498,463</u>	<u>5,806,059</u>	<u>7,304,522</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Pensions	20,280	-	20,280
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>20,280</u>	<u>-</u>	<u>20,280</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	1,456,177	3,500,834	4,957,011
Restricted for:			
Debt Service	22,816	-	22,816
Unrestricted	740,638	1,209,049	1,949,687
TOTAL NET POSITION	<u>2,219,631</u>	<u>4,709,883</u>	<u>6,929,514</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

<u>PROGRAM ACTIVITIES</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION</u>		
		<u>Fees, Fines and Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:						
General Government and Public Safety	<u>1,235,737</u>	<u>518,612</u>	<u>918</u>	<u>(716,207)</u>	<u>-</u>	<u>(716,207)</u>
Total Governmental Activities	<u>1,235,737</u>	<u>518,612</u>	<u>918</u>	<u>(716,207)</u>	<u>-</u>	<u>(716,207)</u>
Business-Type Activities:						
Water and Sewer	<u>1,634,787</u>	<u>1,495,271</u>	<u>-</u>	<u>-</u>	<u>(139,516)</u>	<u>(139,516)</u>
Total Business-Type Activities	<u>1,634,787</u>	<u>1,495,271</u>	<u>-</u>	<u>-</u>	<u>(139,516)</u>	<u>(139,516)</u>
Total Government	<u>2,870,524</u>	<u>2,013,883</u>	<u>918</u>	<u>(716,207)</u>	<u>(139,516)</u>	<u>(855,723)</u>
General Revenues:						
Taxes:						
Property				849,055	-	849,055
Sales				660,358	-	660,358
Franchise				81,026	-	81,026
Miscellaneous				19,726	-	19,726
Investment Earnings				3,747	307	4,054
Transfers				<u>(368,513)</u>	<u>368,513</u>	<u>-</u>
Total General Revenues and Transfers				<u>1,245,399</u>	<u>368,820</u>	<u>1,614,219</u>
Changes in Net Position				<u>529,192</u>	<u>229,304</u>	<u>758,496</u>
Net Position At Beginning of Year				<u>1,690,439</u>	<u>4,480,579</u>	<u>6,171,018</u>
Net Position At End of Year				<u>2,219,631</u>	<u>4,709,883</u>	<u>6,929,514</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2017**

<u>ASSETS</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Cash on Hand and in Bank	344,149	132,480	476,629
Investments - Time Certificates of Deposit	479,614	-	479,614
Sales Tax Receivable	53,404	-	53,404
Taxes Receivable	17,131	18,962	36,093
Street Usage Fees Receivable	18,636	-	18,636
Garbage Collection Fees Receivable	29,659	-	29,659
Accrued Interest Receivable	1,228	-	1,228
Other Receivables	1,868	2,701	4,569
Allowance for Uncollectible Taxes	(7,027)	(5,499)	(12,526)
Due from Other Funds	<u>4,855</u>	<u>-</u>	<u>4,855</u>
TOTAL ASSETS	<u>943,517</u>	<u>148,644</u>	<u>1,092,161</u>
<u>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE</u>			
<u>Liabilities:</u>			
Accounts Payable	32,756	-	32,756
Accrued Liabilities	10,810	-	10,810
Due to Other Funds	<u>13,762</u>	<u>112,365</u>	<u>126,127</u>
Total Liabilities	<u>57,328</u>	<u>112,365</u>	<u>169,693</u>
<u>Deferred Inflows of Resources:</u>			
Unavailable Revenue - Property Taxes	<u>10,104</u>	<u>13,463</u>	<u>23,567</u>
Total Inflows of Resources	<u>10,104</u>	<u>13,463</u>	<u>23,567</u>
<u>Fund Balance:</u>			
Restricted:			
Construction	13,688	-	13,688
Muni-Court Technology	7,604	-	7,604
Purpose of Grantors	6,692	-	6,692
Debt Service	-	22,816	22,816
Assigned:			
Street Repairs	68,330	-	68,330
Unassigned	<u>779,771</u>	<u>-</u>	<u>779,771</u>
Total Fund Balance	<u>876,085</u>	<u>22,816</u>	<u>898,901</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	<u>943,517</u>	<u>148,644</u>	<u>1,092,161</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

Total Fund Balances - Total Governmental Funds	898,901
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	2,723,013
Long-term liabilities are not due and payable in the current period, and therefore, they are not reported in the governmental fund balance sheet.	(1,266,836)
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the governmental fund balance sheet.	(3,340)
Assets not available to pay for current period expenditures are deferred in the governmental fund balance sheet.	23,567
Included in the items related to debt is the recognition of the City's proportionate share of the net pension liability required by GASB 68 in the amount of \$184,721, a Deferred Resource Inflow related to TRS in the amount of \$20,280 and a Deferred Resource Outflow related to TRS in the amount of \$49,327. This amounted to a decrease in Net Position in the amount of \$155,674.	<u>(155,674)</u>
Net Position of Governmental Activities	<u>2,219,631</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES:</u>			
Ad Valorem Taxes, Penalties and Interest	338,855	502,631	841,486
Sales Tax	660,358	-	660,358
Garbage Collection Fees	344,766	-	344,766
Utilities Franchise Taxes (Street Rentals)	81,026	-	81,026
Interest Income	3,747	-	3,747
Police Department Income	118,516	-	118,516
Grant Income	918	-	918
Building and Mobile Home Permits	55,330	-	55,330
Miscellaneous Fees and Revenues	19,726	-	19,726
Total Revenues	<u>1,623,242</u>	<u>502,631</u>	<u>2,125,873</u>
<u>EXPENDITURES:</u>			
General Government			
Salaries, Payroll Taxes, Retirement, and Insurance	450,140	-	450,140
Repairs and Maintenance	24,430	-	24,430
Garbage Collection Cost	251,335	-	251,335
Utilities and Telephone	27,873	-	27,873
Miscellaneous Expenditures	4,149	-	4,149
City Hall and Election Expenditures	4,483	-	4,483
Office Expenditures	16,681	-	16,681
Insurance	18,317	-	18,317
Legal and Audit Fees	13,761	-	13,761
Travel and Seminars	14,678	-	14,678
Tax Appraisal and Collection	12,146	-	12,146
Public Safety - Police	136,914	-	136,914
Street Maintenance	75,115	-	75,115
Debt Service			
Principal Retirement	260,300	97,600	357,900
Interest and Fees	5,022	27,793	32,815
Capital Outlay	407,328	-	407,328
Total Expenditures	<u>1,722,672</u>	<u>125,393</u>	<u>1,848,065</u>
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	<u>(99,430)</u>	<u>377,238</u>	<u>277,808</u>
<u>OTHER FINANCING (USES):</u>			
Transfer Out	-	(368,513)	(368,513)
Total Other Financing (Uses)	<u>-</u>	<u>(368,513)</u>	<u>(368,513)</u>
Net Change in Fund Balances	(99,430)	8,725	(90,705)
Fund Balances, Beginning of Year	<u>975,515</u>	<u>14,091</u>	<u>989,606</u>
Fund Balances, End of Year	<u>876,085</u>	<u>22,816</u>	<u>898,901</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

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

Net Change in Fund Balances - Total Governmental Funds	(90,705)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the net amount of capital assets purchased and sold in the current period.	407,328
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental fund.	(160,614)
The issuance of long-term debt provides current financial resources to governmental funds; while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however, this has no effect on net position.	357,900
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources.	321
Some property tax will not be collected for several months after the City's fiscal year end. These are not considered "available" revenues in the governmental fund until received.	7,569
Net change in TMRS expenditures, deferred resource inflows and outflows for the current year as required by GASB 68.	<u>7,393</u>
Changes in Net Position of Governmental Activities	<u>529,192</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

GENERAL FUND

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP</u>	<u>(Negative)</u>
			<u>Basis</u>	<u>Variance with</u>
				<u>Final Budget</u>
<u>REVENUES:</u>				
Ad Valorem Taxes, Penalties and Interest	283,000	283,000	338,855	55,855
Sales Tax	670,000	670,000	660,358	(9,642)
Garbage Collection Fees	62,000	62,000	344,766	282,766
Utilities Franchise Taxes (Street Rentals)	78,000	78,000	81,026	3,026
Interest Income	2,000	2,000	3,747	1,747
Police Department Income	90,000	90,000	118,516	28,516
Grant Income	-	-	918	918
Building and Mobile Home Permits	31,100	31,100	55,330	24,230
Miscellaneous Fees and Revenues	800	800	19,726	18,926
Total Revenues	<u>1,216,900</u>	<u>1,216,900</u>	<u>1,623,242</u>	<u>406,342</u>
<u>EXPENDITURES:</u>				
General Government:				
Salaries, Payroll Taxes,				
Retirement, and Insurance	448,900	448,900	450,140	(1,240)
Repairs and Maintenance	28,500	30,500	24,430	6,070
Garbage Collection Cost	-	-	251,335	(251,335)
Utilities and Telephone	27,000	29,000	27,873	1,127
Miscellaneous Expenditures	4,000	4,000	4,149	(149)
City Hall and Election Expenditures	16,000	20,000	4,483	15,517
Office Expenditures	21,200	19,200	16,681	2,519
Insurance	18,500	18,500	18,317	183
Legal and Audit Fees	43,000	41,000	13,761	27,239
Travel and Seminars	18,000	16,000	14,678	1,322
Tax Appraisal and Collection	14,000	15,000	12,146	2,854
Public Safety - Police	154,030	146,030	136,914	9,116
Street Maintenance	75,115	75,115	75,115	-
Debt Service				
Principal Retirement	38,550	38,550	260,300	(221,750)
Interest and Fees	-	-	5,022	(5,022)
Capital Outlay	<u>310,105</u>	<u>390,105</u>	<u>407,328</u>	<u>(17,223)</u>
Total Expenditures	<u>1,216,900</u>	<u>1,291,900</u>	<u>1,722,672</u>	<u>(430,772)</u>
Net Change in Fund Balance	-	(75,000)	(99,430)	(24,430)
Fund Balance, Beginning of Year	<u>975,515</u>	<u>975,515</u>	<u>975,515</u>	-
Fund Balance, End of Year	<u>975,515</u>	<u>900,515</u>	<u>876,085</u>	<u>(24,430)</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**PROPRIETARY FUND
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

**BUSINESS - TYPE ACTIVITIES
Enterprise Fund**

ASSETS

Current Assets:

Cash on Hand and in Bank	1,037,271
Accounts Receivable (Net of Reserve for Uncollectible Accounts of \$52,111)	131,485
Due From Other Funds	121,272
Total Current Assets	<u>1,290,028</u>

Restricted Assets:

Cash on Hand and in Bank	1,850,195
Investments - Time Certificates of Deposit	40,368
Accrued Interest Receivable	103
Total Restricted Assets	<u>1,890,666</u>

Capital Assets:

Land	180,720
Construction in Progress	446,373
Water and Sewer System	11,082,103
Equipment	702,159
Less Accumulated Depreciation	<u>(5,076,107)</u>
Total Capital Assets	<u>7,335,248</u>
TOTAL ASSETS	<u>10,515,942</u>

LIABILITIES

Current Liabilities:

Accounts Payable	49,606
Accrued Interest Payable	22,992
Bonds Payable - Current	<u>189,350</u>
Total Current Liabilities	<u>261,948</u>

Liabilities Payable From Restricted Assets:

Accounts Payable	25,644
Customer Deposits	<u>126,467</u>
Total Liabilities Payable From Restricted Assets	<u>152,111</u>

Noncurrent Liabilities:

Bonds Payable	<u>5,392,000</u>
Total Noncurrent Liabilities	<u>5,392,000</u>
TOTAL LIABILITIES	<u>5,806,059</u>

NET POSITION

Invested in Capital Assets, Net of Related Debt	3,500,834
Unrestricted	<u>1,209,049</u>
TOTAL NET POSITION	<u>4,709,883</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>BUSINESS - TYPE ACTIVITIES</u> <u>Enterprise Fund</u>
	<u>Water & Sewer Fund</u>
<u>OPERATING REVENUES:</u>	
Water and Sewer Revenues, Including Penalties	1,455,608
Meter and Tap Fees	17,460
Connection Fees	6,576
Other Revenues	<u>15,627</u>
Total Operating Revenues	<u>1,495,271</u>
<u>OPERATING EXPENSES:</u>	
Salaries	350,091
Payroll Taxes	26,609
TMRS Retirement	11,174
Truck and Auto Allowance	22,452
Repairs and Maintenance	43,096
Insurance	66,932
Legal and Audit Fees	4,291
Office Expense	18,505
Miscellaneous Expense	10,980
Materials and Supplies	54,350
Water Purchased - City of Longview	387,099
Engineering and Contract Services	33,293
Permits and Fees	17,808
Utilities and Telephone	78,515
Depreciation	<u>323,878</u>
Total Operating Expenses	<u>1,449,073</u>
Operating Income (Loss)	<u>46,198</u>
<u>NON-OPERATING REVENUES (EXPENSES):</u>	
Interest Income	307
Interest Expense	<u>(185,714)</u>
Total Non-Operating Revenues (Expenses)	<u>(185,407)</u>
Income (Loss) before Transfers	(139,209)
Transfers In	<u>368,513</u>
Change in Net Position	<u>229,304</u>
Net Position at Beginning of Year	<u>4,480,579</u>
Net Position at End of Year	<u>4,709,883</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

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**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017****BUSINESS - TYPE ACTIVITIES
Enterprise Fund****Water &
Sewer
Fund****CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash Receipts From Customers	1,487,933
Cash Payments to Suppliers for Goods and Services	(810,121)
Cash Payments to Employees for Services and Benefits	<u>(387,874)</u>
Net Cash Provided by Operating Activities	<u>289,938</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and Construction of Capital Assets	(628,070)
Transfer in From Debt Service Fund	368,513
Interest Paid on Debt	(186,113)
Retirement of Debt	<u>(182,400)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(628,070)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of Investments	(40,368)
Proceeds From Sale and Maturities of Investments and Assets	40,164
Interest on Cash and Investments	<u>204</u>
Net Cash (Used) By Investing Activities	<u>-</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS	(338,132)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,225,598</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>2,887,466</u>

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017****BUSINESS - TYPE ACTIVITIES
Enterprise Fund****Water &
Sewer
Fund****CONTINUED:****RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating Income (Loss) From Operations	46,198
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided (Used) by Operating Activities:	
Depreciation	323,878
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivables	(9,540)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(72,800)
Increase (Decrease) in Deposits	2,202
Net Cash Provided by Operating Activities	<u>289,938</u>

RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:

Current Assets - Cash on Hand and in Bank	1,037,271
Restricted Cash on Hand and in Bank	<u>1,850,195</u>
Total Cash and Cash Equivalents	<u>2,887,466</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2017**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

The City of Hallsville is an incorporated municipality. The City operates under an alderman-mayor form of government and provides the following services authorized by its charter: public safety, public improvements, highway and streets, and water and sewer.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting practices generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Pensions. The fiduciary net position of the Texas Municipal Retirement System (TMRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TMRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other more significant accounting and reporting policies and practices used by the City are described below.

Basis of Presentation:

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes, 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 program. 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 the 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 HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2017**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental Funds:

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental fund:

General Fund:

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. 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 this fund.

Additionally, the City reports the following governmental fund type:

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of financial resources for the payment of general long-term debt principal, interest, and related costs. The fund balance of the debt service fund is reserved to signify the amounts that are restricted exclusively for debt service.

Proprietary Funds:

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

Water and Sewer Fund:

Water and Sewer Fund is used to account for the provision of water and sewer 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 customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2017**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

Measurement Focus/Basis of Accounting:

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual that are associated with the current fiscal year are property taxes, franchise fees, licenses, charges for service, interest income, and intergovernmental revenues. All other governmental fund revenues are recognized when received.

Budgetary Control:

The City Mayor submits an annual budget to the City Council and the City Council adopts annual fiscal year budgets for City operating funds (General Fund) and for Proprietary Fund Operations (Water and Sewer Enterprise Fund). Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenditures. There were several amendments made to the budgets during the year. The City adopted the budgets on a September 30 fiscal year for the 16-17 year.

The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund presents a comparison of budgetary data to actual results for the year ended September 30, 2017. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

As noted in the General Fund, Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual, General Government expenditures exceeded the budget by the following categories: Garbage Collection Fees by \$251,335; Salaries, Payroll Taxes, Retirement, and Insurance by \$1,240; Miscellaneous by \$149; Principal Retirement by \$221,750; Interest and Fees by \$5,022; and Capital Outlay by \$17,223. In the future, the City will strive to amend the budget throughout the year to adhere to the budget that is legally adopted.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2017**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

The Water and Sewer Fund - Schedule of Revenues, Expenses, and Changes in Net Position - Budget and Actual also presents a comparison of budgetary data to actual results for the year ended.

Interfund Receivables and Payables:

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Transactions Between Funds:

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Cash and Cash Equivalents:

For purposes of the Statement of Cash Flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Investments:

Investments are stated at cost or amortized cost, which is equivalent to market value.

Restricted Assets:

The assets consist of cash and short-term investments restricted for water and sewer construction and customer meter deposits.

Capital Assets:

Capital assets, which includes property, plant, equipment, and infrastructure, 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 valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 Years
Water and Sewer Systems	50 Years
Machinery and Equipment	5-10 Years
Improvements	20 Years
Infrastructure	20-40 Years

Bond Issuance Costs:

Bond issuance costs in governmental funds and enterprise funds are expensed in the year that the bonds are issued.

CITY OF HALLSVILLE, TEXAS

***NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017***

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

Revenue Recognition - Property Taxes:

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent July 1 of the following year.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Delinquent taxes are recorded as unavailable revenue - property taxes, unless collected within sixty days after year-end.

Net Position:

Net Position represents the residual of assets plus deferred outflows less liabilities plus deferred inflows. Net position invested in capital assets, net of related debt 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 its 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.

In the governmental funds financial statements, fund balances are classified into various categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the General Fund.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2017**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

The Council shall approve all commitments by formal action. The action to commit funds must occur prior to fiscal year-end in order to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. A commitment can only be modified or removed by the same formal action.

When it is appropriate for fund balance to be assigned, the Council delegates the responsibility to assign funds to the Mayor or his designee. Assignments may occur subsequent to fiscal year-end.

The Council will utilize the funds in the following order:

- Restricted
- Committed
- Assigned
- Unassigned

Estimates:

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

NOTE 2 - DEPOSITS AND INVESTMENTS:

Legal and Contractual Provisions Governing Deposits and Investments

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

Policies Governing Deposits and Investments

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

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS: *(Continued)*

1. Custodial Credit Risk For Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's policy regarding types of deposits allowed and collateral requirements is:

The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The City is exposed to custodial credit risk for its deposits as follows:

At September 30, 2017, the carrying amount of the City's deposits (cash, petty cash, interest-bearing checking accounts, non-interest bearing checking accounts, money market accounts, and certificates of deposit) was \$3,884,077 and the bank balances were \$4,014,268. The City's cash deposits at September 30, 2017, and during the year were entirely covered by FDIC insurance or by pledged collateral held by the pledging financial institution's agent in the City's name. The certificates of deposit total \$519,982 and are classified as current investments for report purposes. The certificates of deposit mature within a year.

At September 30, 2017, the City had \$557,864 of deposits, which were fully insured by the FDIC. The remaining deposit balances at the bank totaled \$3,456,404 and were collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

2. Custodial Credit Risk For Investments - This is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

At September 30, 2017, the City was not exposed to custodial credit risk. The City only had investments in certificates of deposit, which are included in cash custodial credit risk as mention above.

3. Interest Rate Risk - Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise.

According to City policy, investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flows of the City and conforming to all applicable state and City statutes governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. The City was not subject to interest rate risk during the year ended September 30, 2017. As mentioned previously, the City had investments in certificates of deposit.

4. Credit Risk and Concentration Risk - The City's main goal of their investment program is to ensure its safety and maximize financial returns within current market conditions in accordance with policy. The City's investment policy states that diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS: (Continued)

U.S. Treasuries and securities with the U.S. Government's guarantee	100%
U.S. Government agencies and instrumentalities	not to exceed 50%
Fully insured or collateralized CD's	100%
Money Market Funds	
Operating Funds	not to exceed 50%
Bond Funds	80%
Local Government Investment Pools (Constant dollar)	100%

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officer may not invest more than 20% of the portfolio for a period greater than one (1) year. Unless matched to a specific requirement, the Investment Officer may not invest any portion of the portfolio for a period greater than one (1) year.

5. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end and during the year, the City was not exposed to foreign currency risk.

Time certificates of deposit include restricted, assigned, and unrestricted investments. Time certificates of deposit of the various funds at September 30, 2017 in the amount of \$519,982 are detailed as follows:

<u>ISSUING BANK</u>	<u>CERTIFICATE NUMBER</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>AMOUNT</u>	
<u>Restricted Funds:</u>					
Water and Sewer Fund -					
Guaranty Bank & Trust Hallsville, TX	6211995	1.03%	10/03/17	<u>40,368</u>	40,368
<u>Assigned Funds:</u>					
General Fund -					
Guaranty Bank & Trust Hallsville, TX	6211994	1.03%	10/03/17	<u>68,330</u>	68,330
<u>Unrestricted Funds:</u>					
General Fund -					
Guaranty Bank & Trust Hallsville, TX	6211996	1.03%	10/03/17	103,471	
Guaranty Bank & Trust Hallsville, TX	6211998	1.03%	10/03/17	51,874	
Guaranty Bank & Trust Hallsville, TX	6211997	1.03%	10/03/17	51,105	
Guaranty Bank & Trust Hallsville, TX	6211992	1.03%	10/03/17	102,417	
Guaranty Bank & Trust Hallsville, TX	6211993	1.03%	10/03/17	<u>102,417</u>	<u>411,284</u>
Total Certificates of Deposit					<u>519,982</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3 - TAXES ASSESSED AND DELINQUENT TAXES:

Taxes assessed for the years 2013 through 2016 and delinquent taxes as of September 30, 2017, are detailed as follows:

COMPARISON OF ASSESSED VALUATIONS FOR THE YEARS 2013 - 2016

	<u>TAX ASSESSMENTS</u>			
	<u>YEAR 2013</u>	<u>YEAR 2014</u>	<u>YEAR 2015</u>	<u>YEAR 2016</u>
Total Assessed Valuation	170,597,619	184,305,502	199,525,790	210,228,200
Rate per \$100 Valuation	<u>.275811</u>	<u>.258957</u>	<u>.258957</u>	<u>.399737</u>
Total Taxes Assessed	<u>470,527</u>	<u>477,272</u>	<u>516,686</u>	<u>840,360</u>

DELINQUENT TAXES RECEIVABLE
AT SEPTEMBER 30, 2017

2015 and Prior Taxes Receivable	16,700
2016 Uncollected Taxes	<u>19,393</u>
Total Uncollected Taxes - September 30, 2017	36,093
Less: Reserve for Uncollectible Taxes	(12,526)
Net Delinquent Taxes Receivable	<u>23,567</u>

A reserve for uncollectible taxes in the amount of \$12,526 at September 30, 2017, represents 75% of delinquent taxes receivable at September 30, 2017.

CITY OF HALLSVILLE, TEXAS**NOTES TO THE FINANCIAL STATEMENTS**
SEPTEMBER 30, 2017**NOTE 4 - CAPITAL ASSETS:**

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

	September 30, <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	September 30, <u>2017</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	76,892	-	-	76,892
Construction in Progress	-	14,000	-	14,000
Total Capital Assets Not Being Depreciated	<u>76,892</u>	<u>14,000</u>	-	<u>90,892</u>
Capital Assets Being Depreciated:				
Buildings	454,201	-	-	454,201
Equipment	758,754	38,344	-	797,098
Improvements	139,232	-	-	139,232
Infrastructure	<u>2,082,596</u>	<u>354,984</u>	-	<u>2,437,580</u>
Total Capital Assets, Being Depreciated	<u>3,434,783</u>	<u>393,328</u>	-	<u>3,828,111</u>
Less Accumulated Depreciation For:				
Buildings	126,039	11,357	-	137,396
Equipment	562,491	82,747	-	645,238
Improvements	108,582	5,794	-	114,376
Infrastructure	<u>238,264</u>	<u>60,716</u>	-	<u>298,980</u>
Total Accumulated Depreciation	<u>1,035,376</u>	<u>160,614</u>	-	<u>1,195,990</u>
Total Capital Assets, Being Depreciated, Net	<u>2,399,407</u>	<u>232,714</u>	-	<u>2,632,121</u>
Governmental Activities Capital Assets, Net	<u>2,476,299</u>	<u>246,714</u>	-	<u>2,723,013</u>
 <u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	180,720	-	-	180,720
Construction in Progress	<u>563,417</u>	-	(117,044)	<u>446,373</u>
Total Capital Assets Not Being Depreciated	<u>744,137</u>	-	(117,044)	<u>627,093</u>
Capital Assets Being Depreciated:				
Water and Sewer System	10,353,369	728,734	-	11,082,103
Equipment	<u>685,779</u>	<u>16,380</u>	-	<u>702,159</u>
Total Capital Assets, Being Depreciated	<u>11,039,148</u>	<u>745,114</u>	-	<u>11,784,262</u>
Less Accumulated Depreciation For:				
Water and Sewer System	4,286,182	263,915	-	4,550,097
Equipment	<u>466,047</u>	<u>59,963</u>	-	<u>526,010</u>
Total Accumulated Depreciation	<u>4,752,229</u>	<u>323,878</u>	-	<u>5,076,107</u>
Total Capital Assets, Being Depreciated, Net	<u>6,286,919</u>	<u>421,236</u>	-	<u>6,708,155</u>
Business-Type Activities Capital Assets, Net	<u>7,031,056</u>	<u>421,236</u>	(117,044)	<u>7,335,248</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4 - CAPITAL ASSETS: *(Continued)*

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

Governmental Activities:

General Government and Public Safety	<u>160,614</u>
Total Depreciation Expense - Governmental Activities	<u>160,614</u>

Business-Type Activities:

Water and Sewer	<u>323,878</u>
Total Depreciation Expense - Business-Type Activities	<u>323,878</u>

NOTE 5 - BONDS PAYABLE - WATER & SEWER ENTERPRISE FUND:

On February 18, 2014, the City issued \$2,865,000 General Obligation Refunding Bonds, Series 2014, to refund a portion of the City of Hallsville, Texas, Tax and Waterworks and Sewer System Revenue Certificates of Obligations, Series 2008, and the City of Hallsville Waterworks and Sewer System Subordinate Lien Revenue Bonds, Series 1998. \$1,117,350 of the proceeds (39%) of issuance are to be used for the purpose of refunding the 2014 through 2019 maturities of the City's currently outstanding Waterworks and Sewer System Subordinate Lien Revenue Bonds, Series 1998. This portion of the proceeds is accounted for in the Water and Sewer Fund. The remaining \$1,747,650 (61%) of the Refunding Bonds is being used to refund the Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2008, that is accounted for in the governmental activities. (See Note 6) The General Obligation Bonds are secured by the City's limited ad valorem tax levy.

The proceeds from the refunded existing bond maturities and interest thereon were placed with an escrow agent. The escrowed funds, together with investment earnings thereon, will be sufficient to discharge the Refunded Bonds. Under the escrow agreement, the Escrow Fund is irrevocably pledged to the payment of principal and interest of the Refunding Bonds. Accordingly, pursuant to the terms of the ordinance authorizing the issuance of the refunded bonds and in accordance with Texas Law, the refunded bonds are deemed to be no longer outstanding obligations payable from the General Obligation Debt Service or for any other purpose except for the purpose of being paid from the funds held in such Escrow Fund. On September 30, 2017, \$1,725,000 of the bonds considered defeased are still outstanding.

The City also issued \$5,050,000 Combination Tax and Revenue Certificates of Obligation, Series 2014, to fund water and sewer infrastructure improvements. The Certificates of Obligation are secured by the same ad valorem tax levy in addition to surplus water and sewer revenue.

CITY OF HALLSVILLE, TEXAS**NOTES TO THE FINANCIAL STATEMENTS**
SEPTEMBER 30, 2017**NOTE 5 - BONDS PAYABLE - WATER & SEWER ENTERPRISE FUND: (Continued)**

<u>Schedule of Refunded Bonds</u>			
	<u>Dates of Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Waterworks and Sewer System Subordinate Lien Revenue Bonds, Series 1998	May 1, 2014-2019	4.250% - 4.450%	435,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2008	August 1, 2014-2028	4.573%	<u>1,290,000</u>
	Total		<u>1,725,000</u>

A schedule of the bonded indebtedness of the City of Hallsville as of September 30, 2017, is as follows:

CITY OF HALLSVILLE, TEXAS GENERAL OBLIGATION**REFUNDING BONDS:**

Series 2014, Dated January 21, 2014 - 1.25% - 3.00% Interest		
Rate Maturing Serially 2014 through 2021		
Total Bonds Issued (39%)	1,117,350	
Less: Bonds Retired	<u>(351,000)</u>	
Balance Outstanding, September 30, 2017		766,350

CITY OF HALLSVILLE, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION BONDS:

Series 2014, Dated January 21, 2014 - 2.00% - 2.50% Interest		
Rate Maturing Serially 2016 through 2024		
Total Bonds Issued	5,050,000	
Less: Bonds Retired	<u>(235,000)</u>	
Balance Outstanding, September 30, 2017		<u>4,815,000</u>
Total Bonded Indebtedness		5,581,350
Less: Amount Classified Current Portion		<u>(189,350)</u>
Bonds Payable - Net of Current Portion		<u>5,392,000</u>

The annual requirements to retire City of Hallsville, Texas General Obligation Refunding Bonds, Series 2014, as of September 30, 2017, are as follows:

<u>FISCAL YEAR</u>	<u>RATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2018	1.250%	64,350	16,989	81,339
2019	1.250%	64,350	16,185	80,535
2020	1.750%	64,350	15,381	79,731
2021	2.000%	66,300	14,255	80,555
2022	2.000%	68,250	12,929	81,179
2023 - 2027	2.250% - 2.750%	360,750	40,765	401,515
2028	3.000%	<u>78,000</u>	<u>2,340</u>	<u>80,340</u>
Total		<u>766,350</u>	<u>118,844</u>	<u>885,194</u>

CITY OF HALLSVILLE, TEXAS**NOTES TO THE FINANCIAL STATEMENTS**
SEPTEMBER 30, 2017**NOTE 5 - BONDS PAYABLE - WATER & SEWER ENTERPRISE FUND: (Continued)**

The annual requirements to retire City of Hallsville, Texas Combination Tax and Revenue Certificates of Obligation, Series 2014, as of September 30, 2017, are as follows:

<u>FISCAL YEAR</u>	<u>RATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2018	2.000%	125,000	165,944	290,944
2019	2.000%	125,000	163,444	288,444
2020	2.000%	125,000	160,944	285,944
2021	2.000%	130,000	158,444	288,444
2022	2.250%	130,000	155,844	285,844
2023 - 2027	2.500% - 3.250%	705,000	728,219	1,433,219
2028 - 2032	3.250% - 4.000%	1,685,000	566,388	2,251,388
2033 - 2036	4.000%	1,790,000	182,600	1,972,600
Total		<u>4,815,000</u>	<u>2,281,827</u>	<u>7,096,827</u>

NOTE 6 - BONDS AND LOANS PAYABLE - GOVERNMENTAL ACTIVITIES:

A schedule of bonded and loan indebtedness of the City of Hallsville as of September 30, 2017, is as follows:

City of Hallsville, Texas General Obligation Refunding Bonds:

Series 2014, Dated January 21, 2015 - 1.250% - 3.000% Interest Rate

Maturing Serially 2014 through 2021

Total Bonds Issued (61%) (See Note 5)

1,747,650

Less: Bonds Retired

(549,000)

Balance Outstanding, September 30, 2017

1,198,650

Less: Amount Classified Current Portion

(100,650)

Bonds Payable - Net of Current Portion

1,098,000

The schedule of annual requirements to retire City of Hallsville, Texas General Obligation Refunding Bonds, Series 2014, as of September 30, 2017, is as follows:

<u>FISCAL YEAR</u>	<u>RATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2018	1.250%	100,650	26,573	127,223
2019	1.250%	100,650	25,315	125,965
2020	1.750%	100,650	24,057	124,707
2021	2.000%	103,700	22,296	125,996
2022	2.000%	106,750	20,221	126,971
2023 - 2027	2.250% - 2.750%	564,250	63,760	628,010
2028	3.000%	122,000	3,660	125,660
Total		<u>1,198,650</u>	<u>185,882</u>	<u>1,384,532</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2017**

NOTE 6 - BONDS AND LOANS PAYABLE - GOVERNMENTAL ACTIVITIES: (Continued)

Loans Payable:

On August 7, 2013, the City entered into a loan agreement with Texas Bank and Trust for the purchase of police vehicles for \$183,197 at 1.995%. The loan is secured by the vehicles and is payable in 62 installments of which the first two payments are interest only; and then there are 58 payments including principal and interest in the amount of \$3,210; and one final payment of principal balance and accrued interest that will be due at maturity.

On August 4, 2016, the City entered into a loan agreement with Texas Bank and Trust for street repairs and improvements for a maximum amount of \$300,000 at 2.480%. The loan is secured by various City equipment. The loan is an interest only draw period for the first 6 months of the loan with interest due based on the loan balance at the end of each month. Once improvements and repairs are completed, the loan is interest only for the next 6 months with a balloon at the end of the one year term.

These loans are reflected in the Statement of Net Position in governmental activities, and current requirements for principal and interest expenditures are accounted for in the General Fund.

The following is a summary of the City's loan transactions for the year ended September 30, 2017:

	<u>2017</u>
Balance - Beginning of Year	328,486
Current Year Principal Payments	<u>(260,300)</u>
BALANCE, END OF YEAR	<u>68,186</u>

Debt service requirements are as follows:

Long-Term Debt Loans Payable:

<u>Year Ended</u> <u>September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2018	64,959	490	65,449
2019	<u>3,227</u>	<u>3</u>	<u>3,230</u>
Total	<u>68,186</u>	<u>493</u>	<u>68,679</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7 - COMMITMENTS UNDER OPERATING LEASE:

The City has entered into a non-cancelable operating lease. Commitments under this operating (noncapitalized) lease agreement for a copier provide for minimum future rental payments. The future rental payments as of September 30, 2017 are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2018	2,874
2019	<u>2,874</u>
Total Minimum Payments Required	<u>5,748</u>
Rental Expenditures in Fiscal Year 2017	<u>2,874</u>

NOTE 8 - CHANGES IN LONG-TERM LIABILITIES:

Long-term activity for the year ended September 30, 2017, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Interest</u> <u>Current</u> <u>Year</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:						
General Obligation Refunding Bonds	1,296,250	-	(97,600)	1,198,650	27,793	100,650
Loans Payable	<u>328,486</u>	-	<u>(260,300)</u>	<u>68,186</u>	<u>5,022</u>	<u>64,959</u>
Total Governmental Activities	<u>1,624,736</u>	-	<u>(357,900)</u>	<u>1,266,836</u>	<u>32,815</u>	<u>165,609</u>
Business-Type Activities:						
General Obligation Refunding Bonds	828,750	-	(62,400)	766,350	17,769	64,350
Combination Tax and Revenue						
Certificates of Obligation Bonds	<u>4,935,000</u>	-	<u>(120,000)</u>	<u>4,815,000</u>	<u>167,945</u>	<u>125,000</u>
Total Business-Type Activities	<u>5,763,750</u>	-	<u>(182,400)</u>	<u>5,581,350</u>	<u>185,714</u>	<u>189,350</u>
Total Government	<u>7,388,486</u>	-	<u>(540,300)</u>	<u>6,848,186</u>	<u>218,529</u>	<u>354,959</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 9 - INSURANCE IN FORCE AND BOND COVERAGE:

Insurance in force and bond coverage as of September 30, 2017, is detailed as follows:

<u>TYPE OF COVERAGE</u>	<u>AMOUNT OF COVERAGE</u>	<u>CURRENT POLICY PERIOD</u>
Fire, Lightning & Extended Coverage -		
Sewer Plants and Pump Stations	4,803,600 - Building	
	25,000 - Contents	
City Hall	629,425 - Building	
	75,000 - Contents	10/01/16-17
Police Station	280,044 - Building	
	100,000 - Contents	10/01/16-17
Surety - Fidelity Coverage Blanket Bond		
- City Secretary, Police Secretary, Clerks	100,000	05/01/17-18
Standard Workmen's Compensation & Employer's Liability Policy	Unlimited/Based Upon WC Laws of State of Texas	10/01/16-17
Automobile Policy	500,000	10/01/16-17
	1,000 Deductible	
Mobile Equipment	76,858	10/01/16-17
	1,000 Deductible	
Waterworks Pumphouse	93,873 - Building	10/01/16-17
201 Walnut Street		
General Liability	1,000,000	
	-0- Deductible	10/01/16-17
Errors and Omissions	500,000/1 MM	
	2,500 Deductible	10/01/16-17
Law Enforcement Liability	500,000/1 MM	
	2,500 Deductible	10/01/16-17
Boiler & Machinery	100,000 Per Accident Limit	
	1,000 Deductible	10/01/16-17

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2017**

NOTE 10 - PENSION PLAN:

Texas Municipal Retirement System –

TMRS Plan Description:

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

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

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 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. Plan provisions for the City were as follows:

	<u>Plan Year 2016</u>	<u>Plan Year 2015</u>
Employee deposit rate	5%	5%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	20 years at any age, 5 years at age 60 and above	20 years at any age, 5 years at age 60 and above
Updated service credit	0 Repeating, Transfers	0 Repeating, Transfers
Annuity increase (to retirees)	0 of CPI Repeating	0 of CPI Repeating

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2017**

NOTE 10 - PENSION PLAN: (Continued)

Employees Covered by Benefit Terms:

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

	<u>12/31/2016</u>	<u>12/31/2015</u>
Inactive employees or beneficiaries currently receiving benefits	4	4
Inactive employees entitled to but not yet receiving benefits	15	14
Active employees	<u>16</u>	<u>16</u>
	<u>35</u>	<u>34</u>

Contributions:

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

Employees for the City of Hallsville were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Hallsville were 3.10% and 3.34% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$22,685, and satisfied the required contributions.

Net Pension Liability:

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

Actuarial assumptions:

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

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

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2017**

NOTE 10 - PENSION PLAN: *(Continued)*

Net Pension Liability: *(Continued)*

Actuarial assumptions used in the December 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013, valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of 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 Real Rate of Return</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	30.0%	1.00%
Non-Core Fixed Income	10.0%	3.65%
Real Return	5.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	5.0%	4.00%
Private Equity	5.0%	8.00%
	<u>100.0%</u>	

Discount Rate:

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

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10 - PENSION PLAN: *(Continued)*

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (Liability) (b)-(a)
Balance at December 31, 2015	579,173	391,116	(188,057)
Changes for the year:			
Service Cost	43,558	-	(43,558)
Interest	39,318	-	(39,318)
Difference between expected and actual experience	(6,970)	-	6,970
Changes of assumptions	-	-	-
Contributions - employer	-	19,671	19,671
Contributions - employee	-	33,455	33,455
Net investment income	-	26,431	26,431
Benefit payments, including refunds of employee Contributions	(36,916)	(36,916)	-
Administrative expense	-	(299)	(299)
Other changes	-	(16)	(16)
Net changes	<u>38,990</u>	<u>42,326</u>	<u>3,336</u>
Balance at December 31, 2016	<u>618,163</u>	<u>433,442</u>	<u>(184,721)</u>

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	<u>254,742</u>	<u>184,721</u>	<u>126,393</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10 - PENSION PLAN: *(Continued)*

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

For the year ended September 30, 2017, the City recognized pension expense of \$15,292.

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

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual economic experience	-	20,280
Contributions paid to TMRS subsequent to the measurement date	17,080	-
Differences between projected and actual investment earnings	<u>32,247</u>	<u>-</u>
Total	<u>49,327</u>	<u>20,280</u>

\$17,080 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Net Deferred Outflows (Inflows) of Resources</u>
2018	2,771
2019	3,645
2020	(657)
2020	-
Thereafter	<u>-</u>
Total	<u>5,759</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2017**

NOTE 11 - SUPPLEMENTAL DEATH BENEFITS:

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

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

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

The City's contributions to the TMRS SDBF for the periods ended September 30, 2014 - 2017, are shown below:

Schedule of Contribution Rates **(Retiree-only portion of the rate)**

Plan/ Calendar Year	Annual Required Contribution Rate	Actual Contribution Made Rate	Percent of ARC Contributed
2014	0.02%	0.02%	100.0%
2015	0.03%	0.03%	100.0%
2016	0.04%	0.04%	100.0%
2017	0.04%	0.04%	100.0%

NOTE 12 - CONTINGENT LIABILITIES:

The City participates in Federally assisted grant programs. These programs are subject to audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although such amounts, if any, are expected to be immaterial.

NOTE 13 - LITIGATION:

The City is party to various legal proceedings which normally occur in governmental operations. In the opinion of City Management, none of these would have a material or adverse impact on the Financial Statements.

CITY OF HALLSVILLE, TEXAS

***NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017***

NOTE 14 - COMMITMENTS:

The City has entered into various contracts for improvements and extensions to the sewer system, water supply and treatment facilities. Funds for these contracts will be provided by the bond issue.

NOTE 15 - SUBSEQUENT EVENTS:

The City has evaluated subsequent events through February 14, 2018, the date which the financial statements were available for issue.

CITY OF HALLSVILLE, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FISCAL YEAR ENDED SEPTEMBER 30, 2017

	<u>2015</u>	<u>2016</u>
<u>Total Pension Liability</u>		
Service Cost	39,057	43,558
Interest (on the Total Pension Liability)	39,744	39,318
Changes in benefit terms	-	-
Difference between expected and actual results	(24,317)	(6,970)
Change of assumptions	16,847	-
Benefit payments, including refunds of employee contributions	<u>(80,791)</u>	<u>(36,916)</u>
Net Change in Total Pension Liability	(9,460)	38,990
Total Pension Liability - Beginning	<u>588,633</u>	<u>579,173</u>
Total Pension Liability - Ending (a)	<u>579,173</u>	<u>618,163</u>
<u>Plan Fiduciary Net Position</u>		
Contributions - Employer	19,497	19,671
Contributions - Employee	31,246	33,455
Net Investment Income	621	26,431
Benefit payments, including refunds of employee contributions	(80,791)	(36,916)
Administrative Expense	(378)	(299)
Other	<u>(19)</u>	<u>(16)</u>
Net Change in Plan Fiduciary Net Position	(29,824)	42,326
Plan Fiduciary Net Position - Beginning	<u>420,940</u>	<u>391,116</u>
Plan Fiduciary Net Position - Ending (b)	<u>391,116</u>	<u>433,442</u>
Net Pension Liability (Asset) - Ending (a)-(b)	<u>188,057</u>	<u>184,721</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	67.53%	70.12%
Covered Employee Payroll	624,915	669,092
Net Pension Liability as a Percentage of Covered Employee Payroll	30.09%	27.61%

CITY OF HALLSVILLE, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	20,954	22,685
Contribution in relation to the actuarially determined contributions	<u>20,954</u>	<u>22,685</u>
Contribution deficiency	-	-
Covered employee payroll	624,915	669,092
Contributions as a percentage of covered employee payroll	3.35%	3.39%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: Actuarially determined contribution rates 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	27 years
Asset Valuation Method	10 Year smoothed marked; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Other Information:	There were no benefit changes during the year.

CITY OF HALLSVILLE, TEXAS

WATER AND SEWER FUND

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -

BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual GAAP	Positive (Negative) Variance with Final Budget
	Original	Final	Basis	Final Budget
<u>BUDGETED OPERATING REVENUES:</u>				
Water and Sewer Revenues, Including Penalties	1,379,125	1,379,125	1,455,608	76,483
Meter and Tap Fees	18,100	18,100	17,460	(640)
Connection Fees	4,300	4,300	6,576	2,276
Other Revenues	3,500	3,500	15,627	12,127
Total Budgeted Operating Revenues	1,405,025	1,405,025	1,495,271	90,246
<u>BUDGETED OPERATING EXPENSES:</u>				
Salaries	325,448	352,448	350,091	2,357
Payroll Taxes	24,900	31,000	26,609	4,391
TMRS Retirement	9,600	10,900	11,174	(274)
Truck and Auto Allowance	15,000	16,500	22,452	(5,952)
Repairs and Maintenance	217,000	194,500	43,096	151,404
Insurance	69,200	77,200	66,932	10,268
Legal and Audit Fees	10,000	10,000	4,291	5,709
Office Expense	30,500	25,500	18,505	6,995
Miscellaneous Expense	11,000	4,600	10,980	(6,380)
Materials and Supplies	60,000	71,000	54,350	16,650
Water Purchased - City of Longview	434,669	434,669	387,099	47,570
Engineering and Contract Services	18,500	18,500	33,293	(14,793)
Permits and Fees	29,500	29,500	17,808	11,692
Utilities and Telephone	75,000	84,000	78,515	5,485
Depreciation	-	-	323,878	(323,878)
Total Budgeted Operating Expenses	1,330,317	1,360,317	1,449,073	(88,756)
Budgeted Operating Income (Loss)	74,708	44,708	46,198	1,490
<u>BUDGETED NON-OPERATING REVENUES (EXPENSES):</u>				
Interest Income	100	100	307	207
Interest Expense	-	-	(185,714)	(185,714)
Transfers In	-	-	368,513	368,513
Total Budgeted Non-Operating Revenues (Expenses)	100	100	183,106	183,006
Budgeted Excess of Revenues Over (Under) Expenses	74,808	44,808	229,304	184,496
<u>ADDITIONAL BUDGETED INCOME (EXPENSE) AMOUNTS:</u>				
Capital Outlay	(74,808)	(44,808)	(628,070)	(583,262)
Debt Principal	-	-	(182,400)	(182,400)
Additional Budgeted Income (Expense) Amounts	(74,808)	(44,808)	(810,470)	(765,662)
GRAND TOTAL BUDGETED NET INCOME (LOSS)	-	-	(581,166)	(581,166)