CITY OF HALLSVILLE, TEXAS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2018

CITY OF HALLSVILLE, TEXAS

CITY COUNCIL

Name	Address	Usual Occupation
Jesse Casey, Mayor	109 Mallard Lane Hallsville, Texas	Retired - Public Educator/Administrator
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

204 S. WELLINGTON STREET
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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the Notes to the financial statements, in 2018, the City of Hallsville, Texas, adopted new accounting guidance prescribed by GASB #75 for its supplemental death and disability post employment benefit (OPEB) plan that has a special funding situation. Because GASB #75 implements new measurement criteria and reporting provisions, new information has been added to the Government Wide Statements. The government-wide statement of net position discloses the City's OPEB Liability and some deferred resource outflows related to the City's OPEB plan. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 9, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contributions, and Schedule of Changes in Net OPEB Liability and Related Ratios 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 July 22, 2019, 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, DUVALL, HALLUM & CO.

Knuckols, Duvall, Hallum & Co.
Certified Public Accountants

Marshall, Texas

July 22, 2019

KNUCKOLS · DUVALL · HALLUM & CO. *A Professional Corporation*
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204 S. WELLINGTON STREET
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MARSHALL, TEXAS 75670
(903) 938-0331 • FAX (903) 938-0334

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, 2018, 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 July 22, 2019.

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, DUVALL, HALLUM & CO.

Knuckols, Duvall, Hallum & Co.

Certified Public Accountants

Marshall, Texas

July 22, 2019

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, 2018. 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.

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.

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 $7,393,881 as of September 30, 2018. This includes $35,228 of OPEB Liability. The City implemented GASB #75 this year. Approximately 32% of the City's net position is unrestricted.

TABLE I
CITY OF HALLSVILLE, TEXAS' NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	1,288,465	966,034	3,083,993	3,180,694	4,372,458	4,146,728
Capital Assets	2,761,017	2,723,013	7,322,880	7,335,248	10,083,897	10,058,261
Total Assets	4,049,482	3,689,047	10,406,873	10,515,942	14,456,355	14,204,989
Deferred Outflows - TMRS	43,796	49,327	-	-	43,796	49,327
Long-Term Liabilities	1,414,049	1,451,557	5,392,000	5,581,350	6,806,049	7,032,907
Other Liabilities	54,369	46,906	210,206	224,709	264,575	271,615
Total Liabilities	1,468,418	1,498,463	5,602,206	5,806,059	7,070,624	7,304,522
Deferred Inflows - TMRS	35,646	20,280	-	-	35,646	20,280
Net Position:						
Invested in Capital Assets, Net of Related Debt	1,538,504	1,456,177	3,437,500	3,500,834	4,976,004	4,957,011
Restricted for: Debt Service	44,175	22,816	-	-	44,175	22,816
Unrestricted	1,006,535	740,638	1,367,167	1,209,049	2,373,702	1,949,687
Total Net Position	2,589,214	2,219,631	4,804,667	4,709,883	7,393,881	6,929,514

TABLE II
CITY OF HALLSVILLE, TEXAS' CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue:						
Program Revenues:						
Fees, Fines, & Charges for Serv.	535,916	518,612	1,610,750	1,495,271	2,146,666	2,013,883
Operating Grants & Contributions	881	918	-	-	881	918
General Revenues:						
Property Taxes	870,706	849,055	-	-	870,706	849,055
Sales Taxes	646,084	660,358	-	-	646,084	660,358
Franchise Taxes	84,039	81,026	-	-	84,039	81,026
Investment Earnings	8,218	3,747	673	307	8,891	4,054
Miscellaneous	14,904	19,726	-	-	14,904	19,726
Total Revenue	2,160,748	2,133,442	1,611,423	1,495,578	3,772,171	3,629,020
Expenses:						
General Govt. & Public Safety	1,418,882	1,235,737	-	-	1,418,882	1,235,737
Water and Sewer	-	-	1,888,922	1,634,787	1,888,922	1,634,787
Total Expenses	1,418,882	1,235,737	1,888,922	1,634,787	3,307,804	2,870,524
Increase (Decrease) in Net Position Before Transfers	741,866	897,705	(277,499)	(139,209)	464,367	758,496
Transfers	(372,283)	(368,513)	372,283	368,513	-	-
Increase (Decrease) in Net Position	369,583	529,192	94,784	229,304	464,367	758,496
Net Position at Beginning of Year	2,219,631	1,690,439	4,709,883	4,480,579	6,929,514	6,171,018
Net Position at End of Year	2,589,214	2,219,631	4,804,667	4,709,883	7,393,881	6,929,514

As of September 30, 2018, 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 1% for the year, while general government and public service and safety expenses increased about 15%. Fees, fines, and charges for services increased approximately 3% this year. Operating grants and contributions decreased 4% this year. This was due to the Police Department receiving less in law enforcement. Property tax revenue increased 3%, which was due to the fact that the City's property tax assessed values increased 2% from last year and property tax rates decreased $.007847 per $100 valuation. Sales taxes revenue decreased 2%.

Business-Type Activities - Business-type activities net position increased by $94,784 or approximately 2%.

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 $1,220,162, which is an increase over last year's total of $898,901. Included in this year's change in fund balance is an increase of $299,902 in the General Fund. This increase was mainly due to revenues were more than anticipated and expenditures were less than budgeted.

At the end of the year, unrestricted net position for the enterprise fund was $1,367,167. Net position for the Water and Sewer Fund increased $94,784 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 2018, the City had $16,873,574 invested in a broad range of capital assets. This amount represents a net increase of approximately 3% above last year.

This year's major additions included:

Improvements - General Fund	13,484
Police and Other General Fund Equipment	38,984
Street Improvements	165,353
Water and Sewer System Equipment	110,723
Water and Sewer System Improvements	214,672
Total	543,216

Long-Term Debt

At year-end, the City had $6,490,000 in bonds outstanding versus $6,780,000 last year - a decrease of $290,000 or 4%. The General Obligation Bonds are secured by the City's limited ad valorem tax levy.

Also, at year-end, the City had $124,513 of loans payable outstanding versus $68,186 from last year - an increase of $56,327 or 83%. This year the City had $149,513 of loan advances for street improvements and repairs.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

The City's elected officials and administration considered many factors when approving the property tax rate of $.376008 in September 2018, which consists of $.157439 for the General Fund and $.218569 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, 2018

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash on Hand and in Bank	808,999	1,161,137	1,970,136
Investments - Time Certificates of Deposit	486,455	-	486,455
Receivables (Net, Where Applicable, of Allowance for Uncollectibles)	114,283	149,518	263,801
Internal Balances	(121,272)	121,272	-
Restricted Assets:			
Cash on Hand and in Bank	-	1,611,123	1,611,123
Investments - Time Certificates of Deposit	-	40,943	40,943
Capital Assets:			
Land	76,892	180,720	257,612
Buildings	454,201	-	454,201
Water and Sewer System	-	11,743,148	11,743,148
Equipment	850,082	812,882	1,662,964
Improvements	152,716	-	152,716
Infrastructure	2,602,933	-	2,602,933
Accumulated Depreciation	(1,375,807)	(5,413,870)	(6,789,677)
TOTAL ASSETS	4,049,482	10,406,873	14,456,355
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Pensions	39,981	-	39,981
Deferred Outflows Related to OPEB	3,815	-	3,815
TOTAL DEFERRED OUTFLOWS OF RESOURCES	43,796	-	43,796
LIABILITIES			
Accounts Payable	40,153	59,342	99,495
Accrued Interest Payable	3,182	22,576	25,758
Accrued Liabilities	11,034	-	11,034
Payable From Restricted Assets:			
Customer Deposits	-	128,288	128,288
Noncurrent Liabilities:			
Due Within One Year	225,163	189,350	414,513
Due in More Than One Year	997,350	5,202,650	6,200,000
Net Pension Liability (City's Share)	156,308	-	156,308
Net OPEB Liability	35,228	-	35,228
TOTAL LIABILITES	1,468,418	5,602,206	7,070,624
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Pensions	35,646	-	35,646
TOTAL DEFERRED INFLOWS OF RESOURCES	35,646	-	35,646
NET POSITION			
Invested in Capital Assets, Net of Related Debt	1,538,504	3,437,500	4,976,004
Restricted for:			
Debt Service	44,175	-	44,175
Unrestricted	1,006,535	1,367,167	2,373,702
TOTAL NET POSITION	2,589,214	4,804,667	7,393,881

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

PROGRAM ACTIVITIES	Expenses	PROGRAM REVENUES Fees, Fines and Charges For Services	PROGRAM REVENUES Operating Grants and Contributions	NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION Governmental Activities	NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION Business-Type Activities	NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION Total
Governmental Activities:						
General Government and Public Safety	1,418,882	535,916	881	(882,085)	-	(882,085)
Total Governmental Activities	1,418,882	535,916	881	(882,085)	-	(882,085)
Business-Type Activities:						
Water and Sewer	1,888,922	1,610,750	-	-	(278,172)	(278,172)
Total Business-Type Activities	1,888,922	1,610,750	-	-	(278,172)	(278,172)
Total Government	3,307,804	2,146,666	881	(882,085)	(278,172)	(1,160,257)
General Revenues:						
Taxes:						
Property				870,706	-	870,706
Sales				646,084	-	646,084
Franchise				84,039	-	84,039
Miscellaneous				14,904	-	14,904
Investment Earnings				8,218	673	8,891
Transfers				(372,283)	372,283	-
Total General Revenues and Transfers				1,251,668	372,956	1,624,624
Changes in Net Position				369,583	94,784	464,367
Net Position At Beginning of Year				2,219,631	4,709,883	6,929,514
Net Position At End of Year				2,589,214	4,804,667	7,393,881

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2018

ASSETS	General Fund	Debt Service Fund	Total Governmental Funds
Cash on Hand and in Bank	652,459	156,540	808,999
Investments - Time Certificates of Deposit	486,455	-	486,455
Sales Tax Receivable	46,901	-	46,901
Taxes Receivable	13,821	16,263	30,084
Street Usage Fees Receivable	17,677	-	17,677
Garbage Collection Fees Receivable	30,211	-	30,211
Accrued Interest Receivable	2,378	-	2,378
Allowance for Uncollectible Taxes	(6,487)	(6,481)	(12,968)
Due from Other Funds	4,855	-	4,855
TOTAL ASSETS	1,248,270	166,322	1,414,592
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE			
Liabilities:			
Accounts Payable	40,153	-	40,153
Accrued Liabilities	11,034	-	11,034
Due to Other Funds	13,762	112,365	126,127
Total Liabilities	64,949	112,365	177,314
Deferred Inflows of Resources:			
Unavailable Revenue - Property Taxes	7,334	9,782	17,116
Total Inflows of Resources	7,334	9,782	17,116
Fund Balance:			
Restricted:			
Construction	13,916	-	13,916
Muni-Court Technology	11,099	-	11,099
Purpose of Grantors	6,692	-	6,692
Debt Service	-	44,175	44,175
Assigned:			
Street Repairs	69,304	-	69,304
Unassigned	1,074,976	-	1,074,976
Total Fund Balance	1,175,987	44,175	1,220,162
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	1,248,270	166,322	1,414,592

- 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, 2018

Total Fund Balances - Total Governmental Funds	1,220,162
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.	2,761,017
Long-term liabilities are not due and payable in the current period, and therefore, they are not reported in the governmental fund balance sheet.	(1,222,513)
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.	(3,182)
Assets not available to pay for current period expenditures are deferred in the governmental fund balance sheet.	17,116
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 $156,308, a Deferred Resource Inflow related to TRS in the amount of $35,646 and a Deferred Resource Outflow related to TRS in the amount of $39,981. This amounted to a decrease in Net Position in the amount of $151,973.	(151,973)
The City implemented GASB #75 reporting requirements for the OPEB benefit plan through TMRS. The City's share of the TMRS plan resulted in a net OPEB liability of $35,228 and a deferred outflow of $3,815. This resulted in a net decrease in Net Position in the amount of $31,413.	(31,413)
Net Position of Governmental Activities	2,589,214

- 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, 2018

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Ad Valorem Taxes, Penalties and Interest	356,210	520,947	877,157
Sales Tax	646,084	-	646,084
Garbage Collection Fees	348,082	-	348,082
Utilities Franchise Taxes (Street Rentals)	84,039	-	84,039
Interest Income	8,218	-	8,218
Police Department Income	161,082	-	161,082
Grant Income	881	-	881
Building and Mobile Home Permits	26,752	-	26,752
Miscellaneous Fees and Revenues	14,904	-	14,904
Total Revenues	1,646,252	520,947	2,167,199
EXPENDITURES:			
General Government			
Salaries, Payroll Taxes, Retirement, and Insurance	535,969	-	535,969
Repairs and Maintenance	22,657	-	22,657
Garbage Collection Cost	265,467	-	265,467
Utilities and Telephone	31,717	-	31,717
Miscellaneous Expenditures	2,297	-	2,297
City Hall and Election Expenditures	14,166	-	14,166
Office Expenditures	20,446	-	20,446
Insurance	19,771	-	19,771
Legal and Audit Fees	24,522	-	24,522
Travel and Seminars	14,378	-	14,378
Tax Appraisal and Collection	17,391	-	17,391
Public Safety - Police	154,148	-	154,148
Street Maintenance	60,647	-	60,647
Debt Service			
Principal Retirement	93,186	100,650	193,836
Interest and Fees	1,280	26,655	27,935
Capital Outlay	217,821	-	217,821
Total Expenditures	1,495,863	127,305	1,623,168
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	150,389	393,642	544,031
OTHER FINANCING SOURCES (USES):			
Loan Proceeds	149,513	-	149,513
Transfer Out	-	(372,283)	(372,283)
Total Other Financing Sources(Uses)	149,513	(372,283)	(222,770)
Net Change in Fund Balances	299,902	21,359	321,261
Fund Balances, Beginning of Year	876,085	22,816	898,901
Fund Balances, End of Year	1,175,987	44,175	1,220,162

- 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, 2018

Net Change in Fund Balances - Total Governmental Funds	321,261
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.	217,821
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.	(179,817)
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.	44,323
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.	158
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.	(6,451)
Net change in TMRS expenditures, deferred resource inflows and outflows for the current year as required by GASB #68.	3,701
Net Change in TMRS expenditures, deferred resource outflows for the current year as required by GASB #75	(31,413)
Changes in Net Position of Governmental Activities	369,583

- 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, 2018

	Budgeted Amounts		Actual GAAP	Positive (Negative) Variance with
	Original	Final	Basis	Final Budget
REVENUES:				
Ad Valorem Taxes, Penalties and Interest	330,000	330,000	356,210	26,210
Sales Tax	620,000	620,000	646,084	26,084
Garbage Collection Fees	85,000	85,000	348,082	263,082
Utilities Franchise Taxes (Street Rentals)	82,500	82,500	84,039	1,539
Interest Income	1,000	1,000	8,218	7,218
Police Department Income	115,000	115,000	161,082	46,082
Grant Income	-	-	881	881
Building and Mobile Home Permits	35,000	35,000	26,752	(8,248)
Miscellaneous Fees and Revenues	1,700	1,700	14,904	13,204
Total Revenues	1,270,200	1,270,200	1,646,252	376,052
EXPENDITURES:				
General Government:				
Salaries, Payroll Taxes, Retirement, and Insurance	460,524	525,224	535,969	(10,745)
Repairs and Maintenance	36,500	33,500	22,657	10,843
Garbage Collection Cost	-	-	265,467	(265,467)
Utilities and Telephone	28,000	35,000	31,717	3,283
Miscellaneous Expenditures	13,146	13,146	2,297	10,849
City Hall and Election Expenditures	21,400	26,400	14,166	12,234
Office Expenditures	19,200	27,200	20,446	6,754
Insurance	21,000	21,000	19,771	1,229
Legal and Audit Fees	30,000	40,000	24,522	15,478
Travel and Seminars	18,000	18,000	14,378	3,622
Tax Appraisal and Collection	16,000	17,400	17,391	9
Public Safety - Police	167,880	159,780	154,148	5,632
Street Maintenance	300,000	300,000	60,647	239,353
Debt Service				
Principal Retirement	38,550	38,550	93,186	(54,636)
Interest and Fees	-	-	1,280	(1,280)
Capital Outlay	120,000	35,000	217,821	(182,821)
Total Expenditures	1,290,200	1,290,200	1,495,863	(205,663)
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	(20,000)	(20,000)	150,389	170,389
Other Financing Sources:				
Transfer In	20,000	20,000	-	(20,000)
Loan Proceeds	-	-	149,513	149,513
Total Other Financing Sources	20,000	20,000	149,513	129,513
Net Change in Fund Balance	-	-	299,902	299,902
Fund Balance, Beginning of Year	876,085	876,085	876,085	-
Fund Balance, End of Year	876,085	876,085	1,175,987	299,902

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

PROPRIETARY FUND
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	BUSINESS - TYPE ACTIVITIES Enterprise Fund
	Water & Sewer Fund
ASSETS	
Current Assets:	
Cash on Hand and in Bank	1,161,137
Accounts Receivable (Net of Reserve for Uncollectible Accounts of $50,698)	149,318
Due From Other Funds	121,272
Total Current Assets	1,431,727
Restricted Assets:	
Cash on Hand and in Bank	1,611,123
Investments - Time Certificates of Deposit	40,943
Accrued Interest Receivable	200
Total Restricted Assets	1,652,266
Capital Assets:	
Land	180,720
Water and Sewer System	11,743,148
Equipment	812,882
Less Accumulated Depreciation	(5,413,870)
Total Capital Assets	7,322,880
TOTAL ASSETS	10,406,873
LIABILITIES	
Current Liabilities:	
Accounts Payable	59,342
Accrued Interest Payable	22,576
Bonds Payable - Current	189,350
Total Current Liabilities	271,268
Liabilities Payable From Restricted Assets:	
Customer Deposits	128,288
Total Liabilities Payable From Restricted Assets	128,288
Noncurrent Liabilities:	
Bonds Payable	5,202,650
Total Noncurrent Liabilities	5,202,650
TOTAL LIABILITIES	5,602,206
NET POSITION	
Invested in Capital Assets, Net of Related Debt	3,437,500
Unrestricted	1,367,167
TOTAL NET POSITION	4,804,667

- 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, 2018

	BUSINESS - TYPE ACTIVITIES Enterprise Fund
	Water & Sewer Fund
OPERATING REVENUES:	
Water and Sewer Revenues, Including Penalties	1,586,972
Meter and Tap Fees	6,000
Connection Fees	4,944
Other Revenues	12,834
Total Operating Revenues	1,610,750
OPERATING EXPENSES:	
Salaries	386,646
Payroll Taxes	63,850
TMRS Retirement	12,294
Truck and Auto Allowance	28,205
Repairs and Maintenance	49,517
Insurance	92,554
Legal and Audit Fees	5,291
Office Expense	23,749
Miscellaneous Expense	17,899
Materials and Supplies	57,425
Water Purchased - City of Longview	482,723
Engineering and Contract Services	19,070
Permits and Fees	17,143
Utilities and Telephone	112,275
Depreciation	337,763
Total Operating Expenses	1,706,404
Operating Income (Loss)	(95,654)
NON-OPERATING REVENUES (EXPENSES):	
Interest Income	673
Interest Expense	(182,518)
Total Non-Operating Revenues (Expenses)	(181,845)
Income (Loss) before Transfers	(277,499)
Transfers In	372,283
Change in Net Position	94,784
Net Position at Beginning of Year	4,709,883
Net Position at End of Year	4,804,667

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	BUSINESS - TYPE ACTIVITIES Enterprise Fund
	Water & Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Receipts From Customers	1,594,738
Cash Payments to Suppliers for Goods and Services	(956,256)
Cash Payments to Employees for Services and Benefits	(428,293)
Net Cash Provided by Operating Activities	210,189
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and Construction of Capital Assets	(325,395)
Transfer in From Debt Service Fund	372,283
Interest Paid on Debt	(182,933)
Retirement of Debt	(189,350)
Net Cash (Used) by Capital and Related Financing Activities	(325,395)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Investments	(40,368)
Proceeds From Sale and Maturities of Investments and Assets	39,792
Interest on Cash and Investments	576
Net Cash (Used) By Investing Activities	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(115,206)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,887,466
CASH AND CASH EQUIVALENTS - END OF YEAR	2,772,260

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	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	(95,654)
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided (Used) by Operating Activities:	
Depreciation	337,763
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivables	(17,833)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(15,908)
Increase (Decrease) in Deposits	1,821
Net Cash Provided by Operating Activities	210,189
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:	
Current Assets - Cash on Hand and in Bank	1,161,137
Restricted Cash on Hand and in Bank	1,611,123
Total Cash and Cash Equivalents	2,772,260

- See the accompanying notes to these financial statements -

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.

Effect of New Authoritative Guidance:
GASB Statement #75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions replaces previous authoritative literature. For plans that do not have formal trusts, Governmental Accounting Standards Board (GASB) Statement #75 requires state and local government employers to recognize the total OPEB liability and the related OPEB expense on their financial statements along with the related deferred outflows and inflows of resources. The City of Hallsville implemented GASB Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)* this year. With the adoption of GASB #75, the City is reporting the difference between the net OPEB obligation calculation and the net OPEB liability calculation as a reduction of $35,228 to net position during the current year instead of restating beginning net position due to the amount being immaterial to the financial statements.

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 Post-Employment Benefits (OPEB). The fiduciary net position of the TMRS Supplemental Death and Disability Plan (SDD) 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 OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from the TMRS SDD Plan's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

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

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

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.

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.

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

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.

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.

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

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 17-18 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, 2018. 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 Cost by $265,467; Salaries, Payroll Taxes, Retirement, and Insurance by $10,745; Principal Retirement by $54,636; Interest and Fees by $1,280; and Capital Outlay by $182,821. In the future, the City will strive to amend the budget throughout the year to adhere to the budget that is legally adopted.

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.

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

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.

Deferred Outflows/Inflows of Resources:
In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

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:

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

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.

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:

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, 2018, 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 $4,108,657 and the bank balances were $4,221,296. The City's cash deposits at September 30, 2018, 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 $527,398 and are classified as current investments for report purposes. The certificates of deposit mature within a year.

   At September 30, 2018, the City had $696,636 of deposits, which were fully insured by the FDIC. The remaining deposit balances at the bank totaled $3,524,660 and were collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

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

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, 2018, 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 statues 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, 2018. 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:

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.

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

Time certificates of deposit include restricted, assigned, and unrestricted investments. Time certificates of deposit of the various funds at September 30, 2018 in the amount of $527,398 are detailed as follows:

ISSUING BANK	CERTIFICATE NUMBER	INTEREST RATE	MATURITY DATE	AMOUNT	
Restricted Funds:					
Water and Sewer Fund -					
Guaranty Bank & Trust Hallsville, TX	6300977	1.970%	10/18/18	40,943	40,943
Assigned Funds:					
General Fund -					
Guaranty Bank & Trust Hallsville, TX	6211994	1.970%	10/18/18	69,304	69,304
Unrestricted Funds:					
General Fund -					
Guaranty Bank & Trust Hallsville, TX	6300978	1.970%	10/18/18	104,946	
Guaranty Bank & Trust Hallsville, TX	6300981	1.970%	10/18/18	52,615	
Guaranty Bank & Trust Hallsville, TX	6300979	1.970%	10/18/18	51,834	
Guaranty Bank & Trust Hallsville, TX	6300972	1.970%	10/18/18	103,878	
Guaranty Bank & Trust Hallsville, TX	6300983	1.970%	10/18/18	103,878	417,151
Total Certificates of Deposit					527,398

NOTE 3 - TAXES ASSESSED AND DELINQUENT TAXES:

Taxes assessed for the years 2014 through 2017 and delinquent taxes as of September 30, 2018, are detailed as follows:

COMPARISON OF ASSESSED VALUATIONS FOR THE YEARS 2014 - 2017

	TAX ASSESSMENTS			
	YEAR 2014	YEAR 2015	YEAR 2016	YEAR 2017
Total Assessed Valuation	184,305,502	199,525,790	210,228,200	218,274,001
Rate per $100 Valuation	.258957	.258957	.399737	.39189
Total Taxes Assessed	477,272	516,686	840,360	855,394

DELINQUENT TAXES RECEIVABLE AT SEPTEMBER 30, 2018

2016 and Prior Taxes Receivable	17,291
2017 Uncollected Taxes	12,793
Total Uncollected Taxes - September 30, 2018	30,084
Less: Reserve for Uncollectible Taxes	(12,968)
Net Delinquent Taxes Receivable	17,116

A reserve for uncollectible taxes in the amount of $12,968 at September 30, 2018, represents 75% of delinquent taxes receivable at September 30, 2018.

NOTE 4 - CAPITAL ASSETS:`

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

Governmental Activities:	September 30, 2017	Additions	Deletions	September 30, 2018
Capital Assets Not Being Depreciated:				
Land	76,892	-	-	76,892
Construction in Progress	14,000	-	(14,000)	-
Total Capital Assets Not Being Depreciated	90,892	-	(14,000)	76,892
Capital Assets Being Depreciated:				
Buildings	454,201	-	-	454,201
Equipment	797,098	52,984	-	850,082
Improvements	139,232	13,484	-	152,716
Infrastructure	2,437,580	165,353	-	2,602,933
Total Capital Assets, Being Depreciated	3,828,111	231,821	-	4,059,932
Less Accumulated Depreciation For:				
Buildings	137,396	11,056	-	148,452
Equipment	645,238	85,903	-	731,141
Improvements	114,376	8,286	-	122,662
Infrastructure	298,980	74,572	-	373,552
Total Accumulated Depreciation	1,195,990	179,817	-	1,375,807
Total Capital Assets, Being Depreciated, Net	2,632,121	52,004	-	2,684,125
Governmental Activities Capital Assets, Net	2,723,013	52,004	(14,000)	2,761,017
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	180,720	-	-	180,720
Construction in Progress	446,373	-	(446,373)	-
Total Capital Assets Not Being Depreciated	627,093	-	(446,373)	180,720
Capital Assets Being Depreciated:				
Water and Sewer System	11,082,103	661,045	-	11,743,148
Equipment	702,159	110,723	-	812,882
Total Capital Assets, Being Depreciated	11,784,262	771,768	-	12,556,030
Less Accumulated Depreciation For:				
Water and Sewer System	4,550,097	273,025	-	4,823,122
Equipment	526,010	64,738	-	590,748
Total Accumulated Depreciation	5,076,107	337,763	-	5,413,870
Total Capital Assets, Being Depreciated, Net	6,708,155	434,005	-	7,142,160
Business-Type Activities Capital Assets, Net	7,335,248	434,005	(446,373)	7,322,880

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	179,817
Total Depreciation Expense - Governmental Activities	179,817
Business-Type Activities:	
Water and Sewer	337,763
Total Depreciation Expense - Business-Type Activities	337,763

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, 2018, $1,365,000 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.

NOTE 5 - BONDS PAYABLE - WATER & SEWER ENTERPRISE FUND: *(Continued)*

Schedule of Refunded Bonds

	Dates of Maturity	Interest Rates	Amount
Waterworks and Sewer System Subordinate Lien Revenue Bonds, Series 1998	May 1, 2014-2019	4.250% - 4.450%	220,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2008	August 1, 2014-2028	4.573%	1,145,000
	Total		1,365,000

A schedule of the bonded indebtedness of the City of Hallsville as of September 30, 2018, 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	(415,350)	
Balance Outstanding, September 30, 2018		702,000
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	(360,000)	
Balance Outstanding, September 30, 2018		4,690,000
Total Bonded Indebtedness		5,392,000
Less: Amount Classified Current Portion		(189,350)
Bonds Payable - Net of Current Portion		5,202,650

The annual requirements to retire City of Hallsville, Texas General Obligation Refunding Bonds, Series 2014, as of September 30, 2018, are as follows:

FISCAL YEAR	RATE	PRINCIPAL	INTEREST	TOTAL
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	2.250%	68,250	11,564	79,814
2024 - 2028	2.500% - 3.000%	370,500	31,541	402,041
Total		702,000	101,855	803,855

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, 2018, are as follows:

FISCAL YEAR	RATE	PRINCIPAL	INTEREST	TOTAL
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	2.500%	135,000	152,919	287,919
2024 - 2028	2.500% - 3.250%	720,000	708,044	1,428,044
2029 - 2033	3.250% - 4.000%	1,955,000	505,244	2,460,244
2034 - 2036	4.000%	1,370,000	111,000	1,481,000
Total		4,690,000	2,115,883	6,805,883

NOTE 6 - BONDS AND LOANS PAYABLE - GOVERNMENTAL ACTIVITIES:

A schedule of bonded and loan indebtedness of the City of Hallsville as of September 30, 2018, 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	(649,650)
Balance Outstanding, September 30, 2018	1,098,000
Less: Amount Classified Current Portion	(100,650)
Bonds Payable - Net of Current Portion	997,350

The schedule of annual requirements to retire City of Hallsville, Texas General Obligation Refunding Bonds, Series 2014, as of September 30, 2018, is as follows:

FISCAL YEAR	RATE	PRINCIPAL	INTEREST	TOTAL
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	2.250%	106,750	18,087	124,837
2024 - 2028	2.500% - 3.000%	579,500	49,333	628,833
Total		1,098,000	159,309	1,257,309

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. This loan was paid off this year.

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. Payments will be made on all accrued interest on the balance outstanding from time to time in regular payments beginning September 4, 2018, then on the same day of each month thereafter, a final payment of the entire unpaid outstanding balance of principal and interest will be due August 4, 2019.

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, 2018:

Balance - Beginning of Year	68,186
Current Year Loan Advances	149,513
Current Year Principal Payments	(93,186)
BALANCE, END OF YEAR	124,513

Debt service requirements are as follows:

Long-Term Debt Loans Payable:

Year Ended September 30,	Governmental Activities		
	Principal	Interest	Total Requirements
2019	124,513	1,819	126,332
Total	124,513	1,819	126,332

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, 2018 are as follows:

Year Ending September 30,	
2019	2,874
Total Minimum Payments Required	2,874
Rental Expenditures in Fiscal Year 2018	2,334

NOTE 8 - CHANGES IN LONG-TERM LIABILITIES:

Long-term activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Interest Current Year	Due Within One Year
Governmental Activities:						
General Obligation Refunding Bonds	1,198,650	-	(100,650)	1,098,000	26,573	100,650
Loans Payable	68,186	149,513	(93,186)	124,513	1,278	124,513
Total Governmental Activities	1,266,836	149,513	(193,836)	1,222,513	27,851	225,163
Business-Type Activities:						
General Obligation Refunding Bonds	766,350	-	(64,350)	702,000	16,989	64,350
Combination Tax and Revenue Certificates of Obligation Bonds	4,815,000	-	(125,000)	4,690,000	165,945	125,000
Total Business-Type Activities	5,581,350	-	(189,350)	5,392,000	182,934	189,350
Total Government	6,848,186	149,513	(383,186)	6,614,513	210,785	414,513

NOTE 9 - INSURANCE IN FORCE AND BOND COVERAGE:

Insurance in force and bond coverage as of September 30, 2018, is detailed as follows:

TYPE OF COVERAGE	AMOUNT OF COVERAGE	CURRENT POLICY PERIOD
Fire, Lightning & Extended Coverage -		
Sewer Plants and Pump Stations	4,958,691 - Building 25,000 - Contents	
City Hall & City Park	657,293 - Building 78,000 - Contents	10/01/17-18
Police Station	283,545 - Building 100,000 - Contents	10/01/17-18
Surety - Fidelity Coverage Blanket Bond - City Secretary, Police Secretary, Clerks	100,000	05/01/18-19
Standard Workmen's Compensation & Employer's Liability Policy	Unlimited/Based Upon WC Laws of State of Texas	10/01/17-18
Automobile Policy	500,000 1,000 Deductible	10/01/17-18
Mobile Equipment	76,858 1,000 Deductible	10/01/17-18
Waterworks Pumphouse 201 Walnut Street	135,826 - Building	10/01/17-18
General Liability	1,000,000/2 MM -0- Deductible	10/01/17-18
Errors and Omissions	500,000/1 MM 2,500 Deductible	10/01/17-18
Law Enforcement Liability	500,000/1 MM 2,500 Deductible	10/01/17-18
Boiler & Machinery	100,000 Per Accident Limit 1,000 Deductible	10/01/17-18

NOTE 10 - PENSION PLAN:

Texas Municipal Retirement System –

TMRS Plan Description:

The City of Hallsville participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

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:

	Plan Year 2017	Plan Year 2016
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

NOTE 10 - PENSION PLAN: *(Continued)*

Employees Covered by Benefit Terms:

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

	12/31/2017	12/31/2016
Inactive employees or beneficiaries currently receiving benefits	4	4
Inactive employees entitled to but not yet receiving benefits	18	15
Active employees	17	16
	39	35

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 3.34% and 3.23% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were $25,299, and satisfied the required contributions.

Net Pension Liability:

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

Actuarial assumptions:
The Total Pension Liability in the December 31, 2017, 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.

NOTE 10 - PENSION PLAN: *(Continued)*

Net Pension Liability: *(Continued)*

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
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%
	100.0%	

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.

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, 2016	618,163	433,442	(184,721)
Changes for the year:			
Service Cost	45,578	-	(45,578)
Interest	41,979	-	(41,979)
Difference between expected and actual experience	1,186	-	(1,186)
Changes of assumptions	-	-	-
Contributions - employer	-	22,010	22,010
Contributions - employee	-	35,386	35,386
Net investment income	-	60,087	60,087
Benefit payments, including refunds of employee Contributions	(38,090)	(38,090)	-
Administrative expense	-	(311)	(311)
Other changes	-	(16)	(16)
Net changes	50,653	79,066	28,413
Balance at December 31, 2017	668,816	512,508	(156,308)

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	237,371	156,308	89,277

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, 2018, the City recognized pension expense of $19,649.

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

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	-	10,983
Contributions paid to TMRS subsequent to the measurement date	17,406	-
Differences between projected and actual investment earnings	22,575	24,663
Total	39,981	35,646

$17,406 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, 2018.

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

	Net Deferred Outflows (Inflows) of Resources
2018	(3,120)
2019	(2,246)
2020	(4,087)
2021	(3,618)
2022	-
Thereafter	-
Total	(13,071)

NOTE 11 – POST-EMPLOYMENT BENEFITS (OPEB) - TMRS SUPPLEMENTAL DEATH BENEFITS FUND:

Plan Description:

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.

TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

Benefits Provided:

Payments from this fund are similar to group term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an "other postemployment benefit" (OPEB) and is a fixed amount of $7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the TMRS Pension Trust Fund.

Employees Covered by Benefit Terms:

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

	12/31/17
Inactive employees currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	4
Active employees	17
	25

Contributions:

The member cities contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. 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 life insurance during employees' entire careers.

As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

NOTE 11 – POST-EMPLOYMENT BENEFITS (OPEB) - TMRS SUPPLEMENTAL DEATH BENEFITS FUND:
(Continued)

For the calendar year 2017, the total SDB contributions rate for the City was 0.23%, while the retiree portion of the SDB contribution was 0.04%. The City's contributions for the year ended September 30, 2018, were $311 for the retiree portion, and $1,475 for the total SDB rate. Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Total OPEB Liability:

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

Actuarial Assumptions

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

Inflation	2.50%
Overall	3.50% to 1.5% including inflation
Discount rate *	3.31%
Retiree's share of benefit-related costs	-
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates - service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a three year set-forward for both males and females. The rates are projected on a full generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

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

NOTE 11 – POST-EMPLOYMENT BENEFITS (OPEB) - TMRS SUPPLEMENTAL DEATH BENEFITS FUND:
(Continued)

Total OPEB Liability: *(Continued)*

The actuarial cost method being used is known as the Entry Age Normal Method. This method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation through their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the City. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated.

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four period from December 31, 2010 to December 31, 2014. The post-retirement mortality assumption for health annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2010 and dated December 31, 2013.

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at December 31, 2016	28,672
Changes for the year	
Service cost	2,760
Interest	1,131
Change of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions or other inputs	2,948
Benefit payments	(283)
Net changes	6,556
Balance at December 31, 2017	35,228

NOTE 11 – POST-EMPLOYMENT BENEFITS (OPEB) - TMRS SUPPLEMENTAL DEATH BENEFITS FUND:
(Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate:

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase In Discount Rate (4.31%)
Total OPEB Liability	43,088	35,228	29,430

OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB:

For the year ended September 30, 2018, the City recognized OPEB expense of $4,358.

Components of OPEB Expense

Service Cost	2,760
Interest on total OPEB liability	1,131
Changes in benefit terms	-
Employer administrative costs	-
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience	-
Changes in assumptions or other inputs	467
Total OPEB expense	4,358

Deferred Outflows of Resources and Deferred Inflows of Resources to be Recognized in OPEB Expense in Future Years:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	-	-
Changes in actuarial assumptions	2,481	-
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	1,334	-
Total	3,815	-

NOTE 11 – POST-EMPLOYMENT BENEFITS (OPEB) - TMRS SUPPLEMENTAL DEATH BENEFITS FUND:
(Continued)

The City had $1,334 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Deferred Outflow of Resources
2018	467
2019	467
2020	467
2021	467
2022	467
Thereafter	146
Total	2,481

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.

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 July 22, 2019, 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, 2018

	2015	2016	2017
Total Pension Liability			
Service Cost	39,057	43,558	45,578
Interest (on the Total Pension Liability)	39,744	39,318	41,979
Changes in benefit terms	-	-	-
Difference between expected and actual results	(24,317)	(6,970)	1,186
Change of assumptions	16,847	-	-
Benefit payments, including refunds of employee contributions	(80,791)	(36,916)	(38,090)
Net Change in Total Pension Liability	(9,460)	38,990	50,653
Total Pension Liability - Beginning	588,633	579,173	618,163
Total Pension Liability - Ending (a)	579,173	618,163	668,816
Plan Fiduciary Net Position			
Contributions - Employer	19,497	19,671	22,010
Contributions - Employee	31,246	33,455	35,386
Net Investment Income	621	26,431	60,087
Benefit payments, including refunds of employee contributions	(80,791)	(36,916)	(38,090)
Administrative Expense	(378)	(299)	(311)
Other	(19)	(16)	(16)
Net Change in Plan Fiduciary Net Position	(29,824)	42,326	79,066
Plan Fiduciary Net Position - Beginning	420,940	391,116	433,442
Plan Fiduciary Net Position - Ending (b)	391,116	433,442	512,508
Net Pension Liability (Asset) - Ending (a)-(b)	188,057	184,721	156,308
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	67.53%	70.12%	76.63%
Covered Employee Payroll	624,915	669,092	707,728
Net Pension Liability as a Percentage of Covered Employee Payroll	30.09%	27.61%	22.09%

CITY OF HALLSVILLE, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	2015	2016	2017
Actuarially Determined Contribution	20,954	22,685	25,299
Contribution in relation to the actuarially determined contributions	20,954	22,685	25,299
Contribution deficiency	-	-	-
Covered employee payroll	624,915	669,092	707,728
Contributions as a percentage of covered employee payroll	3.35%	3.39%	3.57%

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

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
SUPPLEMENTAL DEATH BENEFITS PLAN
FISCAL YEAR ENDED SEPTEMBER 30, 2018

	Measurement Year 2017
Total OPEB Liability	
Service Cost	2,760
Interest	1,131
Changes of Benefit Terms	-
Difference Between Expected and Actual Experience	-
Changes of Assumptions	2,948
Benefit Payments	(283)
Net Change in Total OPEB Liability	6,556
Total OPEB liability - Beginning	28,672
Total OPEB liability - Ending	35,228
Covered employee payroll	707,728
Total OPEB liability as a percentage of covered employee payroll	4.98%

NOTES TO SCHEDULE

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

2016	3.81%
2017	3.31%

Until a full 10-year trend is completed, we will present information for those years for which information is available.

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, 2018

	Budgeted Amounts		Actual GAAP	Positive (Negative) Variance with
BUDGETED OPERATING REVENUES:	**Original**	**Final**	**Basis**	**Final Budget**
Water and Sewer Revenues, Including Penalties	1,399,700	1,399,700	1,586,972	187,272
Meter and Tap Fees	7,500	7,500	6,000	(1,500)
Connection Fees	5,000	5,000	4,944	(56)
Other Revenues	9,200	9,200	12,834	3,634
Total Budgeted Operating Revenues	1,421,400	1,421,400	1,610,750	189,350
BUDGETED OPERATING EXPENSES:				
Salaries	388,500	421,300	386,646	34,654
Payroll Taxes	32,000	32,000	63,850	(31,850)
TMRS Retirement	13,000	13,000	12,294	706
Truck and Auto Allowance	16,000	18,500	28,205	(9,705)
Repairs and Maintenance	195,500	159,350	49,517	109,833
Insurance	83,000	90,700	92,554	(1,854)
Legal and Audit Fees	10,000	5,500	5,291	209
Office Expense	22,500	27,500	23,749	3,751
Miscellaneous Expense	12,000	17,000	17,899	(899)
Materials and Supplies	74,300	79,300	57,425	21,875
Water Purchased - City of Longview	400,000	400,000	482,723	(82,723)
Engineering and Contract Services	18,500	20,500	19,070	1,430
Permits and Fees	26,500	24,000	17,143	6,857
Utilities and Telephone	89,600	100,750	112,275	(11,525)
Depreciation	-	-	337,763	(337,763)
Total Budgeted Operating Expenses	1,381,400	1,409,400	1,706,404	(297,004)
Budgeted Operating Income (Loss)	40,000	12,000	(95,654)	(107,654)
BUDGETED NON-OPERATING REVENUES (EXPENSES):				
Interest Income	-	-	673	673
Interest Expense	-	-	(182,518)	(182,518)
Transfers In	-	-	372,283	372,283
Total Budgeted Non-Operating Revenues (Expenses)	-	-	190,438	190,438
Budgeted Excess of Revenues Over (Under) Expenses	40,000	12,000	94,784	82,784
ADDITIONAL BUDGETED INCOME (EXPENSE) AMOUNTS:				
Capital Outlay	(40,000)	(12,000)	(325,395)	(313,395)
Debt Principal	-	-	(189,350)	(189,350)
Additional Budgeted Income (Expense) Amounts	(40,000)	(12,000)	(514,745)	(502,745)
GRAND TOTAL BUDGETED NET INCOME (LOSS)	-	-	(419,961)	(419,961)