

ANNUAL FINANCIAL REPORT

of the

**CITY OF
SHOREACRES, TEXAS**

**For the Year Ended
September 30, 2018**

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CITY OF SHOREACRES, TEXAS

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September 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Shoreacres, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the major funds of the City of Shoreacres, Texas (the "City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. 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 City'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 City'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 the major funds of the City as of September 30, 2018, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

In 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of changes in net pension and total other postemployment liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
July 3, 2019

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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CITY OF SHOREACRES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here, including public safety (police), public works, municipal court, culture and recreation, and general government. Sales tax, property tax, franchise fees, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water, sewer, and sanitation services.

The government-wide financial statements can be found after the MD&A within this report.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City'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 one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, which is always considered to be a major fund for reporting purposes.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

CITY OF SHOREACRES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

Proprietary Funds

The City maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water, sewer, and sanitation operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedules of changes in net pension and total other postemployment (OPEB) liabilities and related ratios and a schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$9,014,912 as of year end. This compares with \$9,373,274 from the prior fiscal year. The largest portion of the City's net position, 88 percent, reflects its investments in capital assets (e.g., land, City hall, police station, fleet equipment, drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

CITY OF SHOREACRES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

Statement of Net Position

The following table provides a condensed Statement of Net Position:

| | 2018 | | | 2017 | | |
|---|----------------------------|-----------------------------|---------------------|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total | Governmental Activities | Business-Type Activities | Total |
| Current and other assets | \$ 1,187,847 | \$ 456,496 | \$ 1,644,343 | \$ 1,397,564 | \$ 294,987 | \$ 1,692,551 |
| Capital assets, net | 5,032,570 | 2,926,119 | 7,958,689 | 5,393,422 | 2,522,611 | 7,916,033 |
| Total Assets | <u>6,220,417</u> | <u>3,382,615</u> | <u>9,603,032</u> | <u>6,790,986</u> | <u>2,817,598</u> | <u>9,608,584</u> |
| Deferred outflows - pensions | 24,982 | 5,263 | 30,245 | 86,831 | 19,475 | 106,306 |
| Deferred outflows - OPEB | 2,516 | - | 2,516 | 147 | - | 147 |
| Total Deferred Outflows of Resources | <u>27,498</u> | <u>5,263</u> | <u>32,761</u> | <u>86,978</u> | <u>19,475</u> | <u>106,453</u> |
| Long-term liabilities | 84,630 | 7,728 | 92,358 | 108,942 | 21,626 | 130,568 |
| Other liabilities | 72,940 | 337,914 | 410,854 | 119,047 | 59,992 | 179,039 |
| Total Liabilities | <u>157,570</u> | <u>345,642</u> | <u>503,212</u> | <u>227,989</u> | <u>81,618</u> | <u>309,607</u> |
| Deferred inflows - pensions | 97,750 | 19,919 | 117,669 | 26,216 | 5,940 | 32,156 |
| Total Deferred Inflows of Resources | <u>97,750</u> | <u>19,919</u> | <u>117,669</u> | <u>26,216</u> | <u>5,940</u> | <u>32,156</u> |
| Net investment in capital assets | 5,032,570 | 2,926,119 | 7,958,689 | 5,393,422 | 2,522,611 | 7,916,033 |
| Restricted | 35,553 | - | 35,553 | 19,528 | - | 19,528 |
| Unrestricted | 924,472 | 96,198 | 1,020,670 | 1,210,809 | 226,904 | 1,437,713 |
| Total Net Position | <u>\$ 5,992,595</u> | <u>\$ 3,022,317</u> | <u>\$ 9,014,912</u> | <u>\$ 6,623,759</u> | <u>\$ 2,749,515</u> | <u>\$ 9,373,274</u> |

A portion of net position, less than one percent, is restricted for specific purposes. The remaining balance of unrestricted net position, \$1,020,670 or 11 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

As of September 30, 2018, the City reported deferred outflows and inflows of resources related to its pension and OPEB plans of \$32,761 and \$117,669 respectively. In addition, the City reported a net pension asset of \$243,066 and a total OPEB liability of \$31,565. The detail of these amounts is further discussed in the notes to the financial statements.

CITY OF SHOREACRES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

Statement of Activities

The following table provides a summary of the City's changes in net position:

| | 2018 | | | 2017 | | |
|---|----------------------------|-----------------------------|--------------------------------|----------------------------|-----------------------------|--------------------------------|
| | Governmental Activities | Business-Type Activities | Total Primary Government | Governmental Activities | Business-Type Activities | Total Primary Government |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 158,311 | \$ 678,739 | \$ 837,050 | \$ 230,989 | \$ 624,621 | \$ 855,610 |
| Operating grants | 969 | - | 969 | 94,005 | - | 94,005 |
| General revenues: | | | | | | |
| Ad valorem taxes | 922,100 | - | 922,100 | 871,988 | - | 871,988 |
| Sales taxes | 100,426 | - | 100,426 | 100,715 | - | 100,715 |
| Franchise fees and local taxes | 90,190 | - | 90,190 | 94,407 | - | 94,407 |
| Investment income | 9,724 | 2,311 | 12,035 | 6,906 | 884 | 7,790 |
| Other revenues | 73,327 | 63,908 | 137,235 | 111,168 | 62,340 | 173,508 |
| Total Revenues | <u>1,355,047</u> | <u>744,958</u> | <u>2,100,005</u> | <u>1,510,178</u> | <u>687,845</u> | <u>2,198,023</u> |
| Expenses | | | | | | |
| General government | 611,030 | - | 611,030 | 528,817 | - | 528,817 |
| Public safety | 601,588 | - | 601,588 | 599,287 | - | 599,287 |
| Public works | 452,373 | - | 452,373 | 520,604 | - | 520,604 |
| Municipal court | 82,774 | - | 82,774 | 78,432 | - | 78,432 |
| Culture and recreation | 38,459 | - | 38,459 | 152,189 | - | 152,189 |
| Water and sewer | - | 505,427 | 505,427 | - | 494,673 | 494,673 |
| Sanitation | - | 166,716 | 166,716 | - | 146,586 | 146,586 |
| Total Expenses | <u>1,786,224</u> | <u>672,143</u> | <u>2,458,367</u> | <u>1,879,329</u> | <u>641,259</u> | <u>2,520,588</u> |
| Increase (Decrease) in Net Position Before Transfers | (431,177) | 72,815 | (358,362) | (369,151) | 46,586 | (322,565) |
| Transfers | (199,987) | 199,987 | - | (66,750) | 66,750 | - |
| Change in Net Position | <u>(631,164)</u> | <u>272,802</u> | <u>(358,362)</u> | <u>(435,901)</u> | <u>113,336</u> | <u>(322,565)</u> |
| Beginning net position | 6,623,759 | 2,749,515 | 9,373,274 | 7,059,660 | 2,636,179 | 9,695,839 |
| Ending Net Position | <u>\$ 5,992,595</u> | <u>\$ 3,022,317</u> | <u>\$ 9,014,912</u> | <u>\$ 6,623,759</u> | <u>\$ 2,749,515</u> | <u>\$ 9,373,274</u> |

The City's net position decreased by \$358,362 during the current fiscal year. This net change can be attributed to several factors. Total revenues decreased by \$98,018 primarily due to a decrease in operating grants and other revenues. Other revenues were higher in the prior year due to park donations for Miramar Park. Total expenses were comparable to prior year, decreasing by less than three percent.

Total revenues for the governmental activities decreased by \$155,131, or ten percent. This decrease is attributable to decreases in operating grants, charges for services, and other revenues. Prior year operating grants and other revenues were higher due to funds received as a part of a Coastal Impact Assistance Program with Harris County for the shoreline restoration project at Miramar park to develop a shoreline protection plan. Prior year charges for services were higher due to more municipal court revenue received. Expenses were comparable to the prior year, decreasing just five percent compared to the previous year.

Overall, business-type activity revenues increased by \$57,113 when compared to the previous year. This increase in revenue is attributable to increases in charges for services mainly due to an increase in water and sewer rates. Expenses increased \$30,884 due primarily to more maintenance costs in fiscal year 2018.

CITY OF SHOREACRES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. There was a decrease in the fund balance of \$329,932 from the prior year. The decrease is primarily due to a transfer to the utility fund. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total general fund balance represents 36 percent of total general fund expenditures.

Total revenues and expenditures for the general fund were comparable to the prior year. The decrease in intergovernmental and other revenue was partially offset by the increase in ad valorem taxes. In the prior year, other revenues and intergovernmental revenue included donations received for Miramar Park and funds received as part of a Coastal Impact Assistance Program. Ad valorem tax revenue increased in the current year due to an increase in appraisal values as well as the tax rate. On the expenditure side, the City purchased new vehicles and equipment for general government and public safety.

Proprietary Funds – The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total actual revenues were less than final budgeted revenues by \$23,530 during the year due to less than expected revenues from fines and forfeitures and franchise fees and local taxes. General fund expenditures were under the final budget by \$33,867 due to lower than expected expenditures across a majority of the departments. General government expenditures were greater than expected by \$98,858.

CAPITAL ASSETS

At the end of fiscal year 2018, the City's governmental and business-type activities had invested \$7,958,689 in a variety of capital assets and infrastructure (net of depreciation). This represents a net decrease of \$42,656.

Major capital asset events during the year included the following:

- Construction in progress for the sanitary sewer rehabilitation project for \$532,081
- City Hall server for \$9,305
- 2018 Chevy Tahoe for the Police Department for \$33,787
- Generator for the Police Department for \$23,830

More detailed information about the City's capital assets is presented in note III.C. to the financial statements.

CITY OF SHOREACRES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

LONG-TERM DEBT

At the end of the current year, the City reported long term liabilities that consisted of \$60,793 in compensated absences and \$31,565 in total OPEB.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's budgeted expenditures for fiscal year 2019 total \$1,560,258 in the general fund and \$705,443 in the water and sewer fund. The City Council adopted a 2018 tax rate of \$0.899995 per \$100 valuation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the finances of the City. Questions concerning this report or requests for additional financial information should be directed to the City Manager, City of Shoreacres, 601 Shore Acres Boulevard, Shoreacres, Texas, 77571 or call (281) 471-2244.

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BASIC FINANCIAL STATEMENTS

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CITY OF SHOREACRES, TEXAS

STATEMENT OF NET POSITION

September 30, 2018

| | Primary Government | | |
|---|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash | \$ 66,864 | \$ 389,838 | \$ 456,702 |
| Investments | 419,511 | - | 419,511 |
| Receivables, net | 415,230 | 109,834 | 525,064 |
| Internal balances | 83,713 | (83,713) | - |
| Net pension asset | 202,529 | 40,537 | 243,066 |
| | <u>1,187,847</u> | <u>456,496</u> | <u>1,644,343</u> |
| Capital assets: | | | |
| Nondepreciable | 175,164 | 539,920 | 715,084 |
| Net depreciable capital assets | 4,857,406 | 2,386,199 | 7,243,605 |
| | <u>5,032,570</u> | <u>2,926,119</u> | <u>7,958,689</u> |
| Total Assets | <u>6,220,417</u> | <u>3,382,615</u> | <u>9,603,032</u> |
| Deferred Outflows of Resources | | | |
| Deferred outflows - pensions | 24,982 | 5,263 | 30,245 |
| Deferred outflows - OPEB | 2,516 | - | 2,516 |
| Total Deferred Outflows of Resources | <u>27,498</u> | <u>5,263</u> | <u>32,761</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | 58,864 | 277,939 | 336,803 |
| Due to other governments | 14,076 | - | 14,076 |
| Customer deposits | - | 59,975 | 59,975 |
| | <u>72,940</u> | <u>337,914</u> | <u>410,854</u> |
| Noncurrent liabilities: | | | |
| Due within one year | 47,759 | 6,955 | 54,714 |
| Due in more than one year | 36,871 | 773 | 37,644 |
| | <u>84,630</u> | <u>7,728</u> | <u>92,358</u> |
| Total Liabilities | <u>157,570</u> | <u>345,642</u> | <u>503,212</u> |
| Deferred Inflows of Resources | | | |
| Deferred inflows - pensions | 97,750 | 19,919 | 117,669 |
| Net Position | | | |
| Net investment in capital assets | 5,032,570 | 2,926,119 | 7,958,689 |
| Restricted for: | | | |
| Child safety | 1,009 | - | 1,009 |
| Court security | 4,295 | - | 4,295 |
| Street maintenance | 30,249 | - | 30,249 |
| Unrestricted | 924,472 | 96,198 | 1,020,670 |
| Total Net Position | <u>\$ 5,992,595</u> | <u>\$ 3,022,317</u> | <u>\$ 9,014,912</u> |

See Notes to Financial Statements.

CITY OF SHOREACRES, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Change in Net Position |
|---------------------------------------|---------------------|-------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | Primary Governmental Activities |
| Primary Government | | | | |
| Governmental Activities | | | | |
| General government | \$ 611,030 | \$ - | \$ - | \$ (611,030) |
| Public safety | 601,588 | 139,740 | 969 | (460,879) |
| Public works | 452,373 | 18,571 | - | (433,802) |
| Municipal court | 82,774 | - | - | (82,774) |
| Culture and recreation | 38,459 | - | - | (38,459) |
| Total Governmental Activities | 1,786,224 | 158,311 | 969 | (1,626,944) |
| Business-Type Activities | | | | |
| Water/sewer services | 505,427 | 524,023 | - | - |
| Sanitation | 166,716 | 154,716 | - | - |
| Total Business-Type Activities | 672,143 | 678,739 | - | - |
| Total Primary Government | \$ 2,458,367 | \$ 837,050 | \$ 969 | (1,626,944) |

General Revenues:

| | |
|---|---------------------|
| Taxes | |
| Ad valorem taxes | 922,100 |
| Sales taxes | 100,426 |
| Franchise fees and local taxes | 90,190 |
| Investment income | 9,724 |
| Other revenues | 73,327 |
| Transfers | (199,987) |
| Total General Revenues and Transfers | 995,780 |
| Change in Net Position | (631,164) |
| Beginning net position | 6,623,759 |
| Ending Net Position | \$ 5,992,595 |

See Notes to Financial Statements.

**Net (Expense) Revenue and
Change in Net Position**

| Primary Government | |
|-------------------------------------|---------------------|
| Business-Type Activities | Total |
| \$ - | \$ (611,030) |
| - | (460,879) |
| - | (433,802) |
| - | (82,774) |
| - | (38,459) |
| - | (1,626,944) |
| 18,596 | 18,596 |
| (12,000) | (12,000) |
| 6,596 | 6,596 |
| 6,596 | (1,620,348) |
| - | 922,100 |
| - | 100,426 |
| - | 90,190 |
| 2,311 | 12,035 |
| 63,908 | 137,235 |
| 199,987 | - |
| 266,206 | 1,261,986 |
| 272,802 | (358,362) |
| 2,749,515 | 9,373,274 |
| \$ 3,022,317 | \$ 9,014,912 |

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CITY OF SHOREACRES, TEXAS

BALANCE SHEET GOVERNMENTAL FUND

September 30, 2018

| | <u>General</u> |
|--|---------------------|
| <u>Assets</u> | |
| Cash | \$ 66,864 |
| Investments | 419,511 |
| Receivables, net | 78,954 |
| Due from other funds | 83,713 |
| Total Assets | \$ 649,042 |
| <u>Liabilities</u> | |
| Accounts payable and accrued liabilities | \$ 58,864 |
| Due to other governments | 14,076 |
| Total Liabilities | 72,940 |
| <u>Deferred Inflows of Resources</u> | |
| Unavailable revenue - property taxes | 36,927 |
| Total Deferred Inflows of Resources | 36,927 |
| <u>Fund Balance</u> | |
| Restricted | |
| Child safety | 1,009 |
| Court security | 4,295 |
| Street maintenance | 30,249 |
| Unassigned | 503,622 |
| Total Fund Balance | 539,175 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance | \$ 649,042 |
| Adjustments for the Statement of Net Position: | |
| Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental fund. | |
| Capital assets - nondepreciable | 175,164 |
| Capital assets - net depreciable | 4,857,406 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund. | 36,927 |
| Other accounts receivable are not considered current financial resources and, therefore, are not reported in governmental fund. | |
| Court accounts receivable | 336,276 |
| Long-term liabilities and deferred outflows/inflows are not due and payable in the current period and, therefore, are not reported in the governmental fund. | |
| Net pension asset | 202,529 |
| Deferred outflows - pensions | 24,982 |
| Deferred outflows - OPEB | 2,516 |
| Deferred inflows - pensions | (97,750) |
| Noncurrent liabilities due within one year | (47,759) |
| Noncurrent liabilities due in more than one year | (36,871) |
| Net Position of Governmental Activities | \$ 5,992,595 |

See Notes to Financial Statements.

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CITY OF SHOREACRES, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended September 30, 2018

| | General |
|--|-------------------|
| <u>Revenues</u> | |
| Ad valorem taxes | \$ 922,548 |
| Sales taxes | 100,426 |
| Franchise fees and local taxes | 90,190 |
| Licenses and permits | 18,571 |
| Fines and forfeitures | 124,686 |
| Charges for services | 26,629 |
| Intergovernmental | 969 |
| Investment income | 9,724 |
| Other revenue | 73,327 |
| Total Revenues | 1,367,070 |
| <u>Expenditures</u> | |
| Current: | |
| General government | 613,463 |
| Public safety | 595,076 |
| Municipal court | 88,099 |
| Culture and recreation | 54,173 |
| Public works | 101,362 |
| Capital outlay | 44,842 |
| Total Expenditures | 1,497,015 |
| (Deficiency) of Revenues (Under) Expenditures | (129,945) |
| <u>Other Financing Sources (Uses)</u> | |
| Transfers (out) | (199,987) |
| Total Other Financing Sources (Uses) | (199,987) |
| Net Change in Fund Balance | (329,932) |
| Beginning fund balance | 869,107 |
| Ending Fund Balance | \$ 539,175 |

See Notes to Financial Statements.

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CITY OF SHOREACRES, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Net changes in fund balance - total governmental fund \$ (329,932)

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

The Governmental fund reports capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|----------------------------------|-----------|
| Capital outlay | 66,922 |
| Disposals of capital assets, net | (1,619) |
| Depreciation expense | (426,155) |

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.

| | |
|-------------------------------|----------|
| Deferred property tax revenue | (448) |
| Court receivable | (11,575) |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

| | |
|--|-----------|
| Compensated absences | 30,195 |
| Net pension asset | 178,345 |
| Total OPEB liability | (5,883) |
| Change in deferred outflows - pensions | (104,972) |
| Change in deferred outflows - OPEB | 2,369 |
| Change in deferred inflows - pensions | (28,411) |

| | |
|--|---------------------|
| Change in Net Position of Governmental Activities | \$ (631,164) |
|--|---------------------|

See Notes to Financial Statements.

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CITY OF SHOREACRES, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2018

| | <u>Utility</u> |
|--|---------------------|
| <u>Assets</u> | |
| Cash | \$ 389,838 |
| Receivables, net | 109,834 |
| Net pension asset | 40,537 |
| | <u>540,209</u> |
| | |
| Capital assets: | |
| Nondepreciable | 539,920 |
| Net depreciable capital assets | 2,386,199 |
| | <u>2,926,119</u> |
| Total Capital Assets | <u>2,926,119</u> |
| Total Assets | <u>3,466,328</u> |
| | |
| <u>Deferred Outflows of Resources</u> | |
| Deferred outflows - pensions | <u>5,263</u> |
| | |
| <u>Liabilities</u> | |
| Current Liabilities | |
| Accounts payable and accrued liabilities | 277,939 |
| Customer deposits | 59,975 |
| Due to other funds | 83,713 |
| | <u>421,627</u> |
| Total Current Liabilities | <u>421,627</u> |
| | |
| Noncurrent Liabilities | |
| Due within one year | 6,955 |
| Due in more than one year | 773 |
| | <u>7,728</u> |
| Total Noncurrent Liabilities | <u>7,728</u> |
| Total Liabilities | <u>429,355</u> |
| | |
| <u>Deferred Inflows of Resources</u> | |
| Deferred inflows - pensions | <u>19,919</u> |
| | |
| <u>Net Position</u> | |
| Net investment in capital assets | 2,926,119 |
| Unrestricted | 96,198 |
| | <u>3,022,317</u> |
| Total Net Position | <u>\$ 3,022,317</u> |

See Notes to Financial Statements.

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CITY OF SHOREACRES, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended September 30, 2018

| | <u>Utility</u> |
|--|---------------------|
| <u>Operating Revenues</u> | |
| Water charges | \$ 367,326 |
| Sewer charges | 156,697 |
| Sanitation | 154,716 |
| Other services | 1,114 |
| Total Operating Revenues | <u>679,853</u> |
| <u>Operating Expenses</u> | |
| Personnel services | 149,232 |
| Water services | 66,204 |
| Solid waste disposal | 166,716 |
| Materials and supplies | 28,016 |
| Maintenance | 74,076 |
| Fuel | 4,312 |
| Utilities | 32,921 |
| Depreciation | 128,573 |
| Other | 22,093 |
| Total Operating Expenses | <u>672,143</u> |
| Operating Income | <u>7,710</u> |
| <u>Nonoperating Revenues (Expenses)</u> | |
| Investment income | 2,311 |
| Miscellaneous revenue | 62,794 |
| Total Nonoperating Revenues | <u>65,105</u> |
| Income Before Transfers | 72,815 |
| Transfers In | <u>199,987</u> |
| Change in Net Position | 272,802 |
| Beginning net position | <u>2,749,515</u> |
| Ending Net Position | <u>\$ 3,022,317</u> |

See Notes to Financial Statements.

CITY OF SHOREACRES, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 1 of 2)

For the Year Ended September 30, 2018

| | <u>Utility</u> |
|--|-------------------|
| <u>Cash Flows from Operating Activities</u> | |
| Receipts from customers | \$ 693,991 |
| Payments to suppliers | (88,186) |
| Payments to employees | (170,551) |
| Net Cash Provided by Operating Activities | <u>435,254</u> |
| <u>Cash Flows from Noncapital Financing Activities</u> | |
| Miscellaneous revenue | 62,794 |
| Net transfer from general fund | 199,987 |
| Net Cash Provided by Noncapital Financing Activities | <u>262,781</u> |
| <u>Cash Flows from Capital and Related Financing Activities</u> | |
| Acquisition and construction of capital assets | (532,081) |
| Net Cash (Used) by Capital and Related Financing Activities | <u>(532,081)</u> |
| <u>Cash Flows from Investing Activities</u> | |
| Interest on investments | 2,311 |
| Net Cash Provided by Investing Activities | <u>2,311</u> |
| Net Increase in Cash and Cash Equivalents | 168,265 |
| Beginning cash and cash equivalents | <u>221,573</u> |
| Ending Cash and Cash Equivalents | <u>\$ 389,838</u> |

CITY OF SHOREACRES, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 2 of 2)

For the Year Ended September 30, 2018

| | <u>Utility</u> |
|--|-------------------|
| Reconciliation of Operating Income (Loss) | |
| to Net Cash Provided (Used) by Operating Activities | |
| Operating income | \$ 7,710 |
| Adjustments to Reconcile Operating | |
| Income to Net Cash Provided | |
| by Operating Activities: | |
| Depreciation | 128,573 |
| Changes in Operating Assets and Liabilities: | |
| (Increase) Decrease in Current Assets: | |
| Accounts receivable | 11,066 |
| Net pension asset | (35,612) |
| Deferred outflows - pensions | 14,212 |
| Increase (Decrease) in Current Liabilities: | |
| Accounts payable and accrued liabilities | 274,850 |
| Customer deposits | 3,072 |
| Due to other funds | 31,302 |
| Compensated absences | (13,898) |
| Deferred inflows - pensions | 13,979 |
| Net Cash Provided by Operating Activities | <u>\$ 435,254</u> |

See Notes to Financial Statements.

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CITY OF SHOREACRES, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Shoreacres, Texas (the "City") was incorporated under the laws of the State of Texas in 1949. The City is a "General Law City", with a Mayor and five Council members elected to two-year terms. City Hall functions as a courthouse, Council chambers, meeting room, and administrative building.

The City provides the following services: public safety including police, fire, and emergency medical services; public works; municipal court services; culture and recreation; water, sewer and sanitation services; and general administration, including permits and inspections.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental fund:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales taxes, franchise fees, fines and forfeitures, as well as licenses and permits. Expenditures include general government, public safety, public works, municipal court, and culture and recreation. The general fund is always considered a major fund for reporting purposes.

The City reports the following enterprise fund:

The *enterprise fund* is used to account for and report the operations that provide water, sewer, and sanitation services. These services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The utility fund is considered a major fund for reporting purposes.

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

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

E. Measurement Focus and Basis of Accounting

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

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund type considers temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposits, are reported at cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code.

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial,

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The City chose not to report general infrastructure assets retroactively, as permitted by GASB Statement No. 34 for smaller governments. The City will prospectively report general infrastructure assets acquired or constructed after October 1, 2003 in the Statement of Net Position in the period they acquire or construct those assets.

Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

| <u>Asset Description</u> | <u>Useful Life</u> |
|----------------------------|--------------------|
| Buildings and improvements | 10 to 30 years |
| Machinery and equipment | 3 to 20 years |
| Water facilities | 20 to 40 years |
| Vehicles | 5 years |
| Infrastructure | 20 to 30 years |

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category on the government-wide Statement of Net Position. Deferred charges have been recognized as a result of changes in actuarial assumptions related to the City's defined benefit pension and Other Postemployment Benefit (OPEB) plan. These amounts are deferred and amortized over the average of the expected service lives of pension and OPEB plan members. In addition, a deferred charge has been recognized for employer pension and OPEB plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. These amounts are deferred and recognized as an increase to the net pension asset and reduction to the total OPEB liability during the measurement period in which the contributions were made.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized as a result of differences between the actuarial expectations and the actual economic experience related to the City's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. In addition, deferred inflows of resources are recognized as a result of the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

5. Compensated Employee Absences

Employees earn vacation time based on years of service with the City, up to a maximum of 20 days per year. Employees may accrue up to a maximum of 30 days of vacation time. Upon termination of employment, any unused vacation time is paid as part of the final paycheck.

Sick leave accrues on the basis of one day per month of employment. A maximum of 65 days may be accrued. Employees are granted sick pay only for actual sick time. Payment for no more than 160 hours for sick leave accrued with two years or more of continued employment with the City will be paid upon resignation, retirement, or in case of death, paid to the estate. The estimated amount that will be paid as compensation for services provided is recorded as a liability in the Statement of Net Position. All eligible time is accrued when incurred in the government-wide and proprietary fund financial statements.

6. Long-Term Obligations

In government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

7. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

8. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund Balance Policies

Fund balance of the governmental fund is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

11. Pensions

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

12. Other Postemployment Benefits

The City participates in a single-employer, unfunded, defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

ordinance, to provide group-term life insurance coverage to both current and retired employees. 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. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.

G. Revenues and Expenditures/Expenses

1. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid.

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Prior to the beginning of each fiscal year, the City Administrator submits to the City Council a proposed budget for the general and water and sewer fund. The City Council uses this as a basis to formulate the operating budget for the upcoming year, which includes proposed expenditures and the means of financing those expenditures.

Public hearings are conducted at which all interested persons' comments concerning the budget are heard. The budget is legally enacted by the City Council. Budgetary control is maintained at the fund level. All annual appropriations lapse at fiscal year end.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and temporary investments include petty cash on hand in various departments and demand deposit accounts. As of year end, the City had the following investments:

| <u>Investment Type</u> | <u>Value</u> | <u>Weighted Average Maturity (Years)</u> |
|------------------------|--------------|--|
| TexPool | \$ 419,511 | N/A |

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Concentration of credit risk. With the exception of U.S. Treasury securities, bond funds, and authorized pools, the City's investment policy does not allow for an investment in any one issuer that is in excess of 50 percent of the portfolio's total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. The Federal Deposit Insurance Corporation (FDIC) insures deposits held at banks and thrift institutions up to limited amounts. As of September 30, 2018, the City's deposits were fully insured.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool 'AAAm'. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

B. Receivables

The following comprise receivable balances at year end:

| | General | Water and Sewer | Total |
|----------------|------------------|--------------------|-------------------|
| Accounts | \$ - | \$ 112,601 | \$ 112,601 |
| Ad valorem | 38,873 | - | 38,873 |
| Sales taxes | 17,910 | - | 17,910 |
| Other | 24,117 | - | 24,117 |
| Less allowance | (1,946) | (2,767) | (4,713) |
| Totals | \$ 78,954 | \$ 109,834 | \$ 188,788 |

C. Capital Assets

A summary of changes in capital assets for the year end is as follows:

| | Primary Government | | | Ending Balance |
|--|----------------------|---|-------------------|---------------------|
| | Beginning Balance | Increases | Decreases | |
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 175,164 | \$ - | \$ - | \$ 175,164 |
| Total capital assets, not being depreciated | 175,164 | - | - | 175,164 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 863,179 | - | - | 863,179 |
| Parks | 233,707 | - | - | 233,707 |
| Vehicles and equipment | 426,572 | 66,922 | (47,936) | 445,558 |
| Infrastructure | 5,776,608 | - | - | 5,776,608 |
| Total capital assets being depreciated | 7,300,066 | 66,922 | (47,936) | 7,319,052 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (129,618) | (21,825) | - | (151,443) |
| Parks | (94,598) | (13,847) | - | (108,445) |
| Vehicles and equipment | (383,246) | (5,376) | 46,317 | (342,305) |
| Infrastructure | (1,474,346) | (385,107) | - | (1,859,453) |
| Total accumulated depreciation | (2,081,808) | (426,155) | 46,317 | (2,461,646) |
| Total capital assets being depreciated net | 5,218,258 | (359,233) | (1,619) | 4,857,406 |
| Governmental Activities Capital Assets, Net | \$ 5,393,422 | \$ (359,233) | \$ (1,619) | 5,032,570 |
| | | Net Investment in Capital Assets | | \$ 5,032,570 |

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Depreciation was charged to governmental functions as follows:

| | | |
|---|-----------|-----------------------|
| General government | \$ | 13,798 |
| Public safety | | 45,603 |
| Culture and recreation | | 7,935 |
| Public works | | 358,819 |
| Total Governmental Activities Depreciation Expense | \$ | <u>426,155</u> |

The following is a summary of changes in capital assets for business-type activities for the year end:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|---|--------------------|----------------------------|
| Business-Type Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 7,839 | \$ - | \$ - | \$ 7,839 |
| Construction in progress | - | 532,081 | - | 532,081 |
| Total capital assets, not being depreciated | <u>7,839</u> | <u>532,081</u> | <u>-</u> | <u>539,920</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 869,253 | - | - | 869,253 |
| Infrastructure | 412,636 | - | - | 412,636 |
| Land improvements | 19,940 | - | - | 19,940 |
| Water facilities | 1,818,914 | - | - | 1,818,914 |
| Vehicles and equipment | 50,384 | - | (15,802) | 34,582 |
| Total capital assets being depreciated | <u>3,171,127</u> | <u>-</u> | <u>(15,802)</u> | <u>3,155,325</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (93,093) | (22,160) | - | (115,253) |
| Infrastructure | (58,188) | (20,798) | - | (78,986) |
| Land improvements | (13,596) | (1,329) | - | (14,925) |
| Water facilities | (449,918) | (81,325) | - | (531,243) |
| Vehicles and equipment | (41,560) | (2,961) | 15,802 | (28,719) |
| Total accumulated depreciation | <u>(656,355)</u> | <u>(128,573)</u> | <u>15,802</u> | <u>(769,126)</u> |
| Total capital assets being depreciated net | 2,514,772 | (128,573) | - | 2,386,199 |
| Business-Type Activities Capital Assets, Net | <u>\$ 2,522,611</u> | <u>\$ 403,508</u> | <u>\$ -</u> | <u>2,926,119</u> |
| | | Net Investment in Capital Assets | | <u>\$ 2,926,119</u> |

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

D. Long-Term Debt

The following is a summary of changes in the City's total long-term liabilities for the year end. In general, the City uses the general fund to liquidate governmental long-term liabilities.

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---------------------------------------|------------------------------|------------------|--------------------|---------------------------|--------------------------------|
| Governmental Activities: | | | | | |
| Compensated absences | \$ 83,260 | \$ 32,643 | \$ (62,838) | \$ 53,065 | \$ 47,759 |
| Total OPEB liability | <u>25,682</u> | <u>5,883</u> | <u>-</u> | <u>31,565</u> | <u>-</u> |
| Total Governmental Activities | <u>\$ 108,942</u> | <u>\$ 38,526</u> | <u>\$ (62,838)</u> | <u>\$ 84,630</u> | <u>\$ 47,759</u> |
| | | | | <u>\$ 36,871</u> | |
| | | | | | |
| | | | | | |
| Business-Type Activities: | | | | | |
| Compensated absences | \$ 21,626 | \$ 7,038 | \$ (20,936) | \$ 7,728 | \$ 6,955 |
| Total Business-Type Activities | <u>\$ 21,626</u> | <u>\$ 7,038</u> | <u>\$ (20,936)</u> | <u>\$ 7,728</u> | <u>\$ 6,955</u> |
| | | | | <u>\$ 773</u> | |

E. Interfund Transactions

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amounts</u> |
|------------------------|---------------------|------------------|
| General fund | Utility fund | <u>\$ 83,713</u> |

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

The compositions of interfund balances as of year end were as follows:

| <u>Transfer Out</u> | <u>Transfer In</u> | <u>Amounts</u> |
|---------------------|--------------------|-------------------|
| General fund | Utility fund | <u>\$ 199,987</u> |

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

F. Prior Period Adjustment

Beginning fund balance/net position has been restated upon a detailed reconciliation of the City's outstanding cash reconciliation items and aging of accounts payable.

Beginning net position has been restated due to implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75).

| | Governmental Activities | Business-Type Activities/Utility | General Fund |
|--|----------------------------|-------------------------------------|---------------------|
| Prior year ending fund balance/ net position as reported | \$ 818,626 | \$ 2,713,821 | \$ 6,598,813 |
| Cash | 29,282 | 22,660 | 29,282 |
| Accounts Payable | 21,199 | 13,034 | 21,199 |
| Total OPEB liability | - | - | (25,682) |
| Deferred outflows | - | - | 147 |
| Restated Beginning Fund Balance/ Net Position | \$ 869,107 | \$ 2,749,515 | \$ 6,649,294 |

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

C. Pension Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the 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 TMRS with a six-member Board of Trustees (the "Board"). 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 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 retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------------|---------------------------|
| Employee deposit rate | 5.00% | 5.00% |
| Matching ratio (City to employee) | 1.5 to 1 | 1.5 to 1 |
| Years required for vesting | 5 | 5 |
| Service requirement eligibility (expressed as age/yrs of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated service credit | 100% Repeating, Transfers | 100% Repeating, Transfers |
| Annuity increase (to retirees) | 70% of CPI | 70% of CPI |

Employees Covered by Benefit Terms

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

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 6 |
| Inactive employees entitled to, but not yet receiving, benefits | 17 |
| Active employees | 13 |
| Total | <u>36</u> |

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Contributions

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

Employees for the City were required to contribute five percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.65 percent and 5.62 percent in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2018 were \$38,553, which were equal to the required contributions.

Net Pension Liability (Asset)

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

Actuarial Assumptions

The TPL in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.50% per year |
| Overall payroll growth | 3.00% per year |
| Investment rate of return | 6.75%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. 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 male rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

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

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

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, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|-----------------------|--------------------------|--|
| Domestic Equity | 17.50% | 4.55% |
| International Equity | 17.50% | 6.35% |
| Core Fixed Income | 10.00% | 1.00% |
| Non-Core Fixed Income | 20.00% | 3.90% |
| Real Return | 10.00% | 3.80% |
| Real Estate | 10.00% | 4.50% |
| Absolute Return | 10.00% | 3.75% |
| Private Equity | 5.00% | 7.50% |
| Total | <u>100.00%</u> | |

Discount Rate

The discount rate used to measure the TPL was 6.75 percent. 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 TPL.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Changes in the NPL(A)

| | Increase (Decrease) | | |
|---|----------------------------|--------------------------------|----------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability/(Asset) |
| | (A) | (B) | (A) - (B) |
| Changes for the year: | | | |
| Service cost | \$ 76,078 | \$ - | \$ 76,078 |
| Interest | 114,566 | - | 114,566 |
| Change in current period benefits | - | - | - |
| Difference between expected and actual experience | (92,723) | - | (92,723) |
| Changes in assumptions | - | - | - |
| Contributions - employer | - | 38,327 | (38,327) |
| Contributions - employee | - | 34,085 | (34,085) |
| Net investment income | - | 240,777 | (240,777) |
| Benefit payments, including refunds of employee contributions | (96,404) | (96,404) | - |
| Administrative expense | - | (1,247) | 1,247 |
| Other changes | - | (63) | 63 |
| Net Changes | 1,517 | 215,474 | (213,957) |
| Balance at December 31, 2016 | 1,707,432 | 1,736,541 | (29,109) |
| Balance at December 31, 2017 | \$ 1,708,949 | \$ 1,952,015 | \$ (243,066) |

Sensitivity of the NPL(A) to Changes in the Discount Rate

The following presents the NPL(A) of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NPL(A) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one 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 (Asset) | \$ 10,706 | \$ (243,066) |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

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

For the fiscal year ended September 30, 2018, the City recognized net pension income of \$10,633.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ - | \$ 66,148 |
| Changes in actuarial assumptions | 2,462 | - |
| Net difference between projected and actual investment earnings | - | 51,521 |
| Contributions subsequent to the measurement date | 27,783 | - |
| Total | \$ 30,245 | \$ 117,669 |

\$27,747 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction/increase of the NPL(A) for the fiscal year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended September 30 | Pension Expense Amount |
|----------------------------|---------------------------|
| 2019 | \$ (46,336) |
| 2020 | (19,415) |
| 2021 | (24,743) |
| 2022 | (24,713) |
| Total | \$ (115,207) |

D. Other Postemployment Benefits

TMRS Supplemental Death Benefit

Plan Description

The City participates in a OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a five percent interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SDBF during the year.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Benefits

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 OPEB and is a fixed amount of \$7,500. 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). Participation in the SDBF as of December 31, 2017 is summarized below:

| | | |
|--|-----------|--|
| Inactive employees or beneficiaries currently receiving benefits | 3 | |
| Inactive employees entitled to, but not yet receiving, benefits | 4 | |
| Active employees | 13 | |
| Total | 20 | |

Total OPEB Liability

The City's total OPEB liability of \$31,565 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

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

| | | |
|--|---|--|
| Inflation | 2.50% | |
| Salary increases | 3.50% to 10.50% including inflation | |
| Discount rate | 3.31%* | |
| Retirees' share of benefit-related costs | Zero | |
| Administrative expenses | All administrative expenses are paid through the PTF 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 3 year set-forward for both males and females. The rate are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor. | |

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Changes in the Total OPEB Liability

| | | <u>Total OPEB Liability</u> |
|------------------------|-----------------------|---------------------------------|
| Changes for the year: | | |
| Service cost | \$ | 2,181 |
| Interest | | 1,008 |
| Changes of assumptions | | 2,899 |
| Benefit payments* | | (205) |
| | Net Changes | 5,883 |
| Beginning balance | | <u>25,682</u> |
| | Ending Balance | \$ 31,565 |

* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded OPEB plan under GASB 75.

There were no changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

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

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

| | <u>1% Decrease in Discount Rate (2.31%)</u> | <u>Discount Rate (3.31%)</u> | <u>1% Increase in Discount Rate (4.31%)</u> |
|-----------------------------|---|----------------------------------|---|
| City's Total OPEB Liability | <u>\$ 39,201</u> | <u>\$ 31,565</u> | <u>\$ 25,910</u> |

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$3,769. The City reported deferred outflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> |
|--|---|
| Changes in actuarial assumptions | \$ 2,319 |
| Contributions subsequent to the measurement date | 197 |
| Total | \$ 2,516 |

\$197 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 of total OPEB liability for the fiscal year

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

ending September 30, 2019. Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Year Ended</u> <u>September 30</u> | <u>OPEB Expense</u> <u>Amount</u> |
|--|--------------------------------------|
| 2019 | \$ 580 |
| 2020 | 580 |
| 2021 | 580 |
| 2022 | 579 |
| Total | \$ 2,319 |

E. Subsequent Events

On November 12, 2018, the City approved the issuance of \$4,500,000 Combination Tax and Surplus Revenue Certificates of Obligation, Series 2018. The Certificates will be payable by the City's ad valorem tax and surplus revenues from the City's water and sewer system, for costs associated with constructions, improving, repairing, rehabilitation, replacing and extending the City's water and sewer system.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SHOREACRES, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2018

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|------------------------------|-------------------|---|
| | <u>Original Budget</u> | <u>Budget as Amended</u> | | |
| <u>Revenues</u> | | | | |
| Ad valorem taxes | \$ 870,088 | \$ 870,088 | \$ 922,548 | \$ 52,460 |
| Sales taxes | 90,000 | 90,000 | 100,426 | 10,426 |
| Franchise fees and local taxes | 99,500 | 99,500 | 90,190 | (9,310) |
| Licenses and permits | 20,000 | 20,000 | 18,571 | (1,429) |
| Fines and forfeitures | 221,650 | 221,650 | 124,686 | (96,964) |
| Charges for services | 26,356 | 26,356 | 26,629 | 273 |
| Intergovernmental | 1,000 | 1,000 | 969 | (31) |
| Investment income | 6,848 | 6,848 | 9,724 | 2,876 |
| Other revenue | 55,158 | 55,158 | 73,327 | 18,169 |
| Total Revenues | <u>1,390,600</u> | <u>1,390,600</u> | <u>1,367,070</u> | <u>(23,530)</u> |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| General government | 495,305 | 514,605 | 613,463 | (98,858) |
| Public safety | 631,629 | 650,999 | 595,076 | 55,923 |
| Public works | 127,992 | 127,992 | 101,362 | 26,630 |
| Municipal court | 169,807 | 169,807 | 88,099 | 81,708 |
| Culture and recreation | 69,479 | 67,479 | 54,173 | 13,306 |
| Total Expenditures | <u>1,494,212</u> | <u>1,530,882</u> | <u>1,497,015</u> | <u>33,867</u> |
| (Deficiency) of Revenues (Under) Expenditures | <u>(103,612)</u> | <u>(140,282)</u> | <u>(129,945)</u> | <u>10,337</u> |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Transfers (out) | - | - | (199,987) | (199,987) |
| Transfers in | 88,605 | 88,605 | - | (88,605) |
| Total Other Financing Sources (Uses) | <u>88,605</u> | <u>88,605</u> | <u>(199,987)</u> | <u>(288,592)</u> |
| Net Change in Fund Balance | <u>\$ (15,007)</u> | <u>\$ (51,677)</u> | <u>(329,932)</u> | <u>\$ (278,255)</u> |
| Beginning fund balance | | | <u>869,107</u> | |
| Ending Fund Balance | | | <u>\$ 539,175</u> | |

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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CITY OF SHOREACRES, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY/(ASSET) AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2018

| | Measurement Year* | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| | 2014 | 2015 | 2016 | 2017 |
| Total Pension Liability | | | | |
| Service cost | \$ 64,456 | \$ 72,260 | \$ 77,770 | \$ 76,078 |
| Interest (on the total pension liability) | 97,657 | 104,802 | 108,078 | 114,566 |
| Difference between expected and actual experience | (7,625) | (46,685) | (19,983) | (92,723) |
| Change in assumptions | - | 23,562 | - | - |
| Benefit payments, including refunds of employee contributions | (48,621) | (64,018) | (41,408) | (96,404) |
| Net Change in Total Pension Liability | 105,867 | 89,921 | 124,457 | 1,517 |
| Beginning total pension liability | 1,387,187 | 1,493,054 | 1,582,975 | 1,707,432 |
| Ending Total Pension Liability | \$ 1,493,054 | \$ 1,582,975 | \$ 1,707,432 | \$ 1,708,949 |
| Plan Fiduciary Net Position | | | | |
| Contributions - employer | \$ 28,959 | \$ 37,437 | \$ 36,495 | \$ 38,327 |
| Contributions - employee | 33,009 | 34,409 | 35,095 | 34,085 |
| Net investment income | 85,419 | 2,349 | 108,130 | 240,777 |
| Benefit payments, including refunds of employee contributions | (48,621) | (64,018) | (41,408) | (96,404) |
| Administrative expense | (892) | (1,430) | (1,221) | (1,247) |
| Other | (73) | (71) | (66) | (63) |
| Net Change in Plan Fiduciary Net Position | 97,801 | 8,676 | 137,025 | 215,474 |
| Beginning plan fiduciary net position | 1,493,039 | 1,590,840 | 1,599,516 | 1,736,541 |
| Ending Plan Fiduciary Net Position | \$ 1,590,840 | \$ 1,599,516 | \$ 1,736,541 | \$ 1,952,015 |
| Net Pension (Asset) | \$ (97,786) | \$ (16,541) | \$ (29,109) | \$ (243,066) |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 106.55% | 101.04% | 101.70% | 114.22% |
| Covered Employee Payroll | \$ 660,180 | \$ 688,186 | \$ 701,895 | 681,699 |
| Net Pension (Asset) as a Percentage of Covered Employee Payroll | -14.81% | -2.40% | -4.15% | -35.66% |

*Only four years of information is currently available. The City will build this schedule over the next six-year period.

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CITY OF SHOREACRES, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2018

| | Measurement Year* <u>2017</u> |
|--|-------------------------------------|
| Total OPEB Liability | |
| Service cost | \$ 2,181 |
| Interest (on the total OPEB liability) | 1,008 |
| Changes in assumptions | 2,899 |
| Benefit payments** | <u>(205)</u> |
| Net Change in Total OPEB Liability | 5,883 |
| Beginning total OPEB liability | <u>25,682</u> |
| Ending Total OPEB Liability | <u>\$ 31,565</u> |
| Covered Payroll | \$ 681,699 |
| Total OPEB Liability as a Percentage of Covered Payroll | 4.63% |

*Only one year of information is currently available. The City will build this schedule over the next nine-year period.

**Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Notes to Required Supplementary Information:

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age normal |
| Inflation | 2.5% |
| Salary increases | 3.50% to 10.5% including inflation. |
| Discount rate | 3.31% |
| Administrative expenses | All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB Statement No. 68. |
| Mortality - 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 - disabled retirees | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor. |

Other Information:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits.

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

Changes in assumptions include the annual change in the municipal bond index rate.

There were no benefit changes during the year.

CITY OF SHOREACRES, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2018

| | Fiscal Year* | | | |
|--|--------------|-------------|-------------|-------------|
| | 2014 | 2015 | 2016 | 2017 |
| Actuarially determined contribution | \$ 28,643 | \$ 34,840 | \$ 37,352 | \$ 37,269 |
| Contributions in relation to the actuarially determined contribution | (28,643) | (34,840) | (37,352) | (37,269) |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 658,853 | \$ 675,614 | \$ 709,393 | \$ 674,259 |
| Contributions as a percentage of covered payroll | 4.35% | 5.16% | 5.27% | 5.53% |

*Only five years of information is currently available. The City will build this schedule over the next five-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|---|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 25 years |
| Asset valuation method | 10 year smoothed market; 15% soft corridor |
| Inflation | 2.5% |
| Salary Increases | 3.50% to 10.5% including inflation |
| Investment rate of return | 6.75% |
| Retirement age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2017 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. |

3. Other Information:

There were no benefit changes during the year.

| <u>Fiscal Year*</u> | |
|---------------------|---------------|
| <u>2018</u> | |
| \$ | 38,553 |
| | <u>38,553</u> |
| | <u>-</u> |
| \$ | 684,750 |
| | 5.63% |

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