

ANNUAL FINANCIAL REPORT

of the

City of Farmersville, Texas

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

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City of Farmersville, Texas

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September 30, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, discretely presented component units, and the aggregate remaining fund information of the City of Farmersville, 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

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, discretely presented component units, and the aggregate remaining fund information of the City as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note V.E. to the financial statements, due to the implementation of GASB No. 75, the City restated its beginning net position and fund balance within governmental activities and business-type activities to properly reflect the total OPEB liability and related deferred outflows and inflows of resources, as prescribed by this accounting standard. In addition, the City restated beginning fund balance and net position within governmental and business-type activities due to various accounting errors occurring in the prior year. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the general fund budgetary comparison information, the schedule of changes in net pension liability and related ratios, the schedule of employer contributions to pension plan, and schedule of changes in the other postemployment benefits liability and related ratios, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of

the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information, such as the combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, professional style.

Brooks Watson & Co., PLLC
Certified Public Accountants
Houston, Texas
May 11, 2019

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*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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City of Farmersville, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2018

As management of the City of Farmersville, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018.

Financial Highlights

- The City's total combined net position was \$12,387,561 at September 30, 2018. Of this, \$4,270,266 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$2,758,536, a decrease of \$95,075.
- As of the end of the year, the unassigned fund balance of the general fund was \$618,728 or 16% of total general fund expenditures.
- The City had an overall increase in net position of \$3,525,394, which is primarily a result of capital investments in governmental activities and revenues exceeding expenses in business-type activities.

Overview of the Financial Statements

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

Government-Wide Statements

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2018

reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, community development, library and civic center, and public works. The business-type activities of the City include a water, wastewater, electric and refuse operations.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Farmersville, Texas maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, debt service fund, and the capital projects funds are considered to be major funds. Fund data for the remaining nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City of Farmersville, Texas adopts an annual appropriated budget for its general, debt service and utility funds. A budgetary comparison schedule has been provided to demonstrate compliance with the general fund budget.

City of Farmersville, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

Proprietary Funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment, electric and refuse operations. The proprietary fund financial statements provide separate information for the water, wastewater, electric and refuse funds. 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 necessary 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 basic financial statements and accompanying notes, this report also presents certain *required supplementary information* (RSI) concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pension and OPEB.

Government-Wide Financial Analysis

As noted previously, net position over time, may serve as a useful indicator of the City's financial position. For the City of Farmersville, Texas, assets exceeded liabilities by \$12,387,561 as of year end.

The largest portion of the City's net position, \$7,480,965, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and utility 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. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 3,047,943	\$ 6,765,266	\$ 9,813,209	\$ 3,125,883	\$ 8,161,229	\$ 11,287,112
Capital assets, net	7,884,744	9,813,413	17,698,157	6,809,860	6,361,435	13,171,295
Total Assets	10,932,687	16,578,679	27,511,366	9,935,743	14,522,664	24,458,407
Deferred Outflows	140,727	48,184	188,911	313,494	91,239	404,733
Other liabilities	808,270	990,127	1,798,397	823,931	597,462	1,421,393
Long-term liabilities	7,669,963	5,701,897	13,371,860	8,348,065	6,162,008	14,510,073
Total Liabilities	8,478,233	6,692,024	15,170,257	9,171,996	6,759,470	15,931,466
Deferred Inflows	97,508	44,951	142,459	51,637	17,870	69,507
Net Position:						
Net investment						
in capital assets	1,115,888	6,365,077	7,480,965	(284,413)	5,789,834	5,505,421
Restricted	636,330	-	636,330	351,135	-	351,135
Unrestricted	745,455	3,524,811	4,270,266	958,882	2,046,729	3,005,611
Total Net Position	\$ 2,497,673	\$ 9,889,888	\$ 12,387,561	\$ 1,025,604	\$ 7,836,563	\$ 8,862,167

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Statement of Activities:

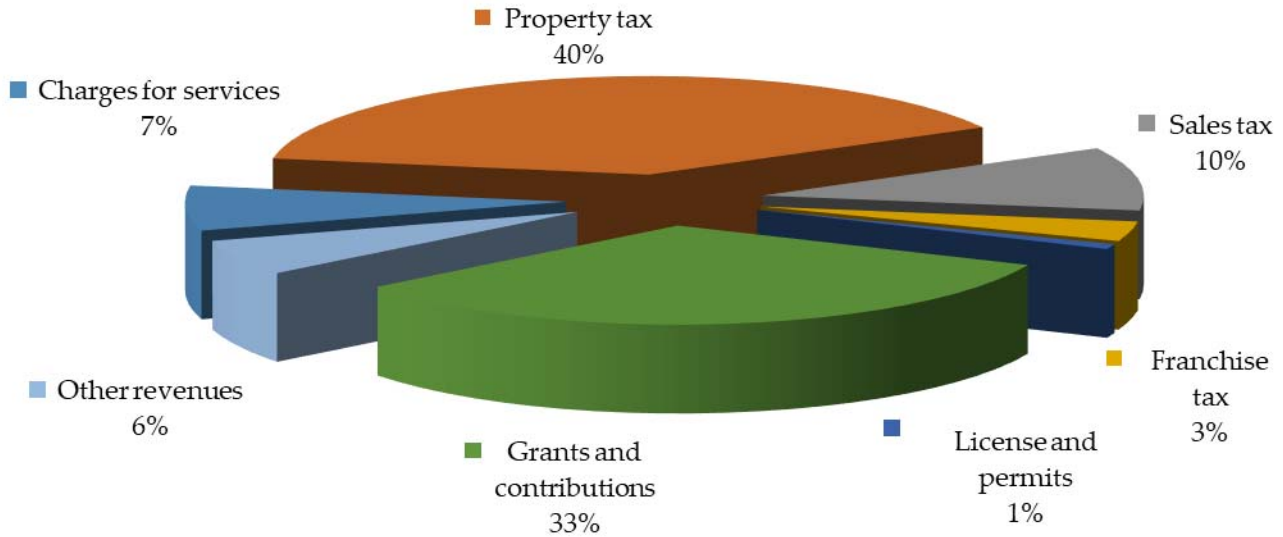
The following table provides a summary of the City's changes in net position:

	<u>For the Year Ended September 30, 2018</u>			<u>For the Year Ended September 30, 2017</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Revenues						
Program revenues:						
Charges for services	\$ 321,728	\$ 7,169,961	\$ 7,491,689	\$ 285,864	\$ 6,364,554	\$ 6,650,418
Operating grants and contributions	170,110	-	170,110	266,571	52,235	318,806
Capital grants and contributions	1,268,083	1,649,364	2,917,447	61,548	-	61,548
General revenues:						
Property tax	1,726,823	-	1,726,823	1,534,160	-	1,534,160
Sales tax	454,406	-	454,406	549,160	-	549,160
Franchise and local taxes	142,403	-	142,403	142,170	-	142,170
License and permits	36,915	-	36,915	46,846	-	46,846
Investment income	44,085	91,828	135,913	21,350	13,656	35,006
Other revenues	212,770	-	212,770	117,156	-	117,156
Total Revenues	<u>4,377,323</u>	<u>8,911,153</u>	<u>13,288,476</u>	<u>3,024,825</u>	<u>6,430,445</u>	<u>9,455,270</u>
Expenses						
General government	704,338	-	704,338	673,050	-	673,050
Municipal court	210,654	-	210,654	217,205	-	217,205
Public safety	1,511,740	-	1,511,740	1,641,474	-	1,641,474
Public works	1,386,627	-	1,386,627	1,148,857	-	1,148,857
Culture and recreation	26,076	-	26,076	26,076	-	26,076
Library and civic center	195,350	-	195,350	207,154	-	207,154
Interest and fiscal charges	248,167	-	248,167	254,168	-	254,168
Water	-	1,643,504	1,643,504	-	1,412,215	1,412,215
Wastewater	-	738,461	738,461	-	777,059	777,059
Electric	-	2,735,767	2,735,767	-	2,999,113	2,999,113
Refuse	-	362,398	362,398	-	377,985	377,985
Total Expenses	<u>4,282,952</u>	<u>5,480,130</u>	<u>9,763,082</u>	<u>4,167,984</u>	<u>5,566,372</u>	<u>9,734,356</u>
Change in Net Position						
Before Transfers	94,371	3,431,023	3,525,394	(1,143,159)	864,073	(279,086)
Transfers in (out)	1,377,698	(1,377,698)	-	212,006	(212,006)	-
Total	<u>1,377,698</u>	<u>(1,377,698)</u>	<u>-</u>	<u>212,006</u>	<u>(212,006)</u>	<u>-</u>
Change in Net Position	1,472,069	2,053,325	3,525,394	(931,153)	652,067	(279,086)
Beginning Net Position	1,025,604	7,836,563	8,862,167	1,956,757	7,184,496	9,141,253
Ending Net Position	<u>\$ 2,497,673</u>	<u>\$ 9,889,888</u>	<u>\$ 12,387,561</u>	<u>\$ 1,025,604</u>	<u>\$ 7,836,563</u>	<u>\$ 8,862,167</u>

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

Governmental Activities - Revenues

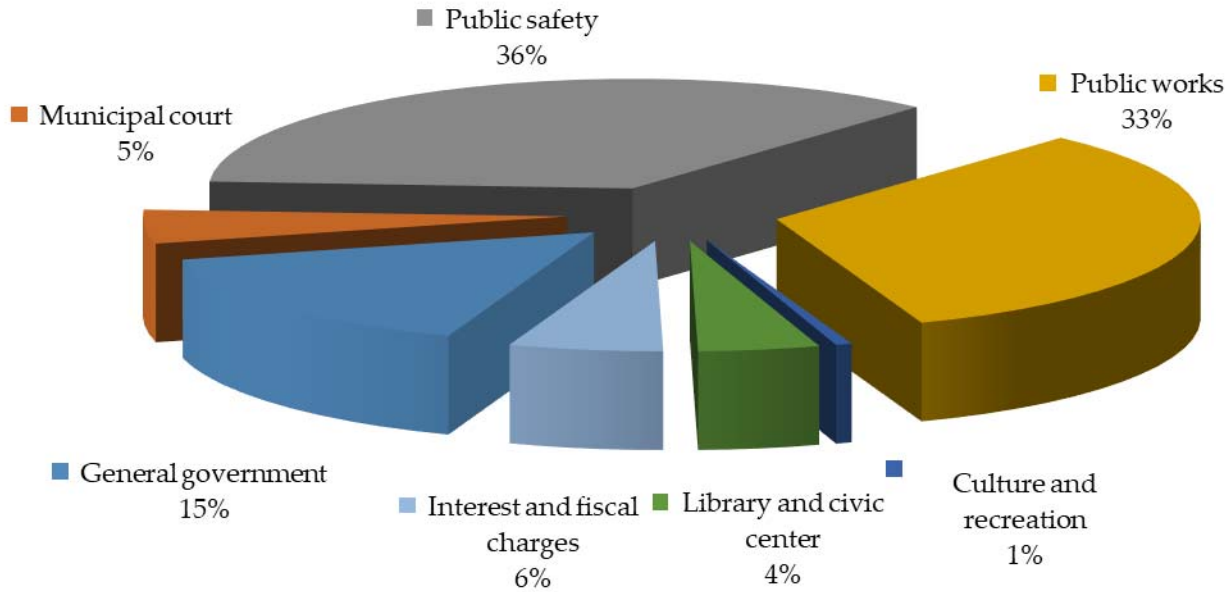


For the year ended September 30, 2018, revenues from governmental activities totaled \$4,377,323. Property tax, sales tax, and grants and contributions are the City's largest revenue sources. Grants and contributions increased by \$1,110,074 due primarily to nonrecurring capital contributions for the Camden Park development. Sales taxes decreased by \$94,754 or 17% primarily as a result of a decline in local business sales revenue. Investment income increased by \$22,735 primarily due to increased balances in interest-bearing accounts. Other revenues increased \$95,614 or 82% due primarily to nonrecurring insurance reimbursements and funding for Civic Center received in the current year. All other revenues remained stable.

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses

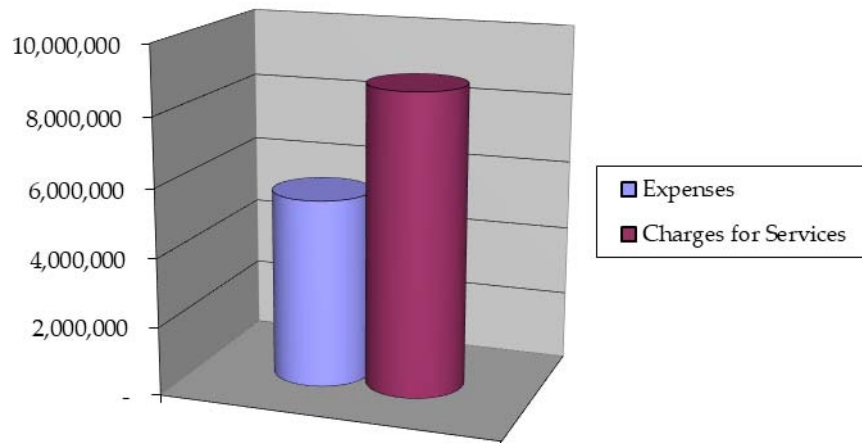


For the year ended September 30, 2018, expenses for governmental activities totaled \$4,282,952. This represents a slight increase of \$114,968 from the prior year. The City's largest functional expenses are public safety of \$1,511,740 and public works of \$1,386,627. Public safety expenses decreased by \$129,734 or 8% due to reduced maintenance expenses and capital asset depreciation. Public works expenses increased by \$237,770 or 21% due primarily to personnel costs and benefits, in addition to added repairs and maintenance related expenses. All other expenditures remained stable.

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2018, charges for services by business-type activities totaled \$7,169,961. This represents an increase of \$805,407, or 13%. The increase is attributed to a significant increase in water and sewer consumption in the current year.

Total expenses decreased \$86,242 or 2%. This primarily consists of a decrease in electricity operating costs and wastewater salaries and contract services expenses. However, water department costs increased by \$231,289 or 16% as a result of increased water purchases and maintenance costs.

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 funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of the end of the year the general fund reflected a total fund balance of \$618,728, a decrease of \$261,476. The City budgeted to have a decrease of \$144,304 due to the need for various added purchases of equipment that the City had previously anticipated purchasing in the previous year. The decrease exceeded the budget of \$144,304 by an additional \$117,172 as a result of other unforeseen professional expenditures and expenditures for repairs and maintenance.

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

The debt service fund reflected a total fund balance of \$348,997, an increase of \$98,174 from the prior year. The increase is a result of property tax revenues exceeding debt service expenses.

The capital projects fund reflected a fund balance of \$1,191,287, a decrease of \$72,838. The decrease was a result of the utilization of capital project funds for capital outlay expenditures.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total negative budget variance of \$117,172 in the general fund. Total actual revenues were \$137,301 less than budgeted, actual expenditures were \$155,367 more than budgeted, and other financing sources and uses had a positive budget variance of \$175,496.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$7,884,744 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$9,813,413 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- Sidewalk and parking lot improvements totaling \$135,330.
- Civic Center and library remodeling for \$98,782.
- Purchase of portable radios for \$114,255.
- Purchase of new public safety vehicles for \$140,841.
- Purchase of land for \$69,000.
- Investments in Candy Kitchen project of \$61,441.
- Camden Park water and sewer development project investments of \$974,257.
- Purchase of 2018 Dodge Ram for \$131,222.
- New force main and sewer lines totaling \$1,969,374.
- Purchase of automated meter reading system for \$75,122.

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

City of Farmersville, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

LONG-TERM DEBT

At the end of the current year, the City had total bonds and notes payable outstanding of \$13,465,097. During the year, the City had a net decrease in bonds and notes payable of \$760,597. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Farmersville, Texas and improving services provided to their public citizens. The City is budgeting to maintain services in the upcoming year and does not anticipate significant changes from fiscal year ending September 30, 2018.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Farmersville, Texas's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Manager, 205 S. Main, Farmersville, Texas 75442, (972) 782-6151.

FINANCIAL STATEMENTS

City of Farmersville, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 2,572,265	\$ 6,169,446	\$ 8,741,711
Receivables, net	251,046	820,452	1,071,498
Internal balances	224,632	(224,632)	-
Total Current Assets	3,047,943	6,765,266	9,813,209
Noncurrent assets:			
Investments	-	-	-
Capital assets:			
Non-depreciable	1,467,102	2,104,601	3,571,703
Net depreciable capital assets	6,417,642	7,708,812	14,126,454
Total Noncurrent Assets	7,884,744	9,813,413	17,698,157
Total Assets	10,932,687	16,578,679	27,511,366
<u>Deferred Outflows of Resources</u>			
Pension contributions	91,771	43,187	134,958
Pension (gains) losses	6,436	3,075	9,511
Changes in pension proportion	4,290	-	4,290
OPEB contributions	431	202	633
OPEB (gains) losses	3,654	1,720	5,374
Deferred charge on refunding	34,145	-	34,145
Total Deferred Outflows of Resources	140,727	48,184	188,911

See Notes to Financial Statements.

Component Units

Economic Development Corporation	Community Development Corporation
\$ 1,199,873	\$ 445,588
37,865	37,865
-	-
<u>1,237,738</u>	<u>483,453</u>
250,000	-
-	192,820
-	7,116
<u>250,000</u>	<u>199,936</u>
<u>1,487,738</u>	<u>683,389</u>
-	-
-	-
-	-
-	-
-	-
-	-
<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>

City of Farmersville, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	71,715	174,791	246,506
Accrued liabilities	64,765	73,565	138,330
Accrued interest payable	35,589	-	35,589
Customer deposits	-	309,089	309,089
Current portion of long-term debt	636,201	432,682	1,068,883
Total Current Liabilities	808,270	990,127	1,798,397
Noncurrent liabilities:			
Long-term debt	7,334,071	5,561,965	12,896,036
OPEB liability	60,784	28,604	89,388
Net pension liability	275,108	111,328	386,436
	7,669,963	5,701,897	13,371,860
Total Liabilities	8,478,233	6,692,024	15,170,257
<u>Deferred Inflows of Resources</u>			
Pension investment earnings	6,337	1,980	8,317
Pension change in assumptions	91,171	42,971	134,142
Total Deferred Inflows of Resources	97,508	44,951	142,459
<u>Net Position</u>			
Net investment in capital assets	1,115,888	6,365,077	7,480,965
Restricted for:			
Debt service	348,997	-	348,997
Library	2,464	-	2,464
Municipal court	15,133	-	15,133
Public safety	85,440	-	85,440
Other purposes	184,296	-	184,296
Community development	-	-	-
Unrestricted	745,455	3,524,811	4,270,266
Total Net Position	\$ 2,497,673	\$ 9,889,888	\$ 12,387,561

See Notes to Financial Statements.

Component Units	
Economic Development Corporation	Community Development Corporation
920	-
-	-
-	1,597
-	-
-	16,947
<u>920</u>	<u>18,544</u>
-	46,005
-	-
-	-
<u>-</u>	<u>46,005</u>
<u>920</u>	<u>64,549</u>
-	-
-	-
<u>-</u>	<u>-</u>
-	136,984
-	-
-	-
-	-
-	-
1,486,818	481,856
-	-
<u>\$ 1,486,818</u>	<u>\$ 618,840</u>

City of Farmersville, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 704,338	\$ 321,728	\$ 244	\$ 1,123,834
Municipal court	210,654	-	-	-
Library and civic center	195,350	-	-	-
Public safety	1,511,740	-	-	144,249
Public works	1,386,627	-	-	-
Community development	26,076	-	169,866	-
Interest and fiscal charges	248,167	-	-	-
Total Governmental Activities	4,282,952	321,728	170,110	1,268,083
Business-Type Activities				
Water	1,643,504	1,814,420	-	675,107
Wastewater	738,461	1,025,803	-	974,257
Electric	2,735,767	3,858,921	-	-
Refuse	362,398	470,817	-	-
Total Business-Type Activities	5,480,130	7,169,961	-	1,649,364
Total Primary Government	\$ 9,763,082	\$ 7,491,689	\$ 170,110	\$ 2,917,447
Component Units				
Economic Development Corporation	45,845	-	-	-
Community Development Corporation	141,054	-	-	-
Total Component Units	\$ 186,899	\$ -	\$ -	\$ -

General Revenues:

Taxes
Property tax
Sales tax
Franchise and local taxes
License and permits
Investment income
Other revenues
Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position			Component Units	
Primary Government			Economic	Community
Governmental	Business-Type	Total	Development	Development
Activities	Activities		Corporation	Corporation
\$ 741,468	\$ -	\$ 741,468	\$ -	\$ -
(210,654)	-	(210,654)	-	-
(195,350)	-	(195,350)	-	-
(1,367,491)	-	(1,367,491)	-	-
(1,386,627)	-	(1,386,627)	-	-
143,790	-	143,790	-	-
(248,167)	-	(248,167)	-	-
(2,523,031)	-	(2,523,031)	-	-
-	846,023	846,023	-	-
-	1,261,599	1,261,599	-	-
-	1,123,154	1,123,154	-	-
-	108,419	108,419	-	-
-	3,339,195	3,339,195	-	-
(2,523,031)	3,339,195	816,164	-	-
-	-	-	(45,845)	-
-	-	-	-	(141,054)
-	-	-	(45,845)	(141,054)
1,726,823	-	1,726,823	-	-
454,406	-	454,406	226,342	226,203
142,403	-	142,403	-	-
36,915	-	36,915	-	-
44,085	91,828	135,913	14,897	1,320
212,770	-	212,770	-	15,082
1,377,698	(1,377,698)	-	-	-
3,995,100	(1,285,870)	2,709,230	241,239	242,605
1,472,069	2,053,325	3,525,394	195,394	101,551
1,025,604	7,836,563	8,862,167	1,291,424	517,289
\$ 2,497,673	\$ 9,889,888	\$ 12,387,561	\$ 1,486,818	\$ 618,840

City of Farmersville, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 867,507	\$ 111,502	\$ 1,205,244	\$ 388,012
Receivables, net				
Property taxes	91,769	61,158	-	-
Sales tax	77,730	-	-	-
Other receivables	20,389	-	-	-
Due from other funds	-	237,495	-	322,264
Total Assets	\$ 1,057,395	\$ 410,155	\$ 1,205,244	\$ 710,276
<u>Liabilities</u>				
Accounts payable	\$ 56,349	\$ -	\$ 2,246	\$ 13,120
Accrued liabilities	64,765	-	-	-
Due to other funds	225,784	-	11,711	97,632
Total Liabilities	346,898	-	13,957	110,752
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	91,769	61,158	-	-
Total Deferred Inflows	91,769	61,158	-	-
<u>Fund Balances</u>				
Restricted for:				
Debt service	-	348,997	-	-
Capital improvements	-	-	1,191,287	422,774
Library	-	-	-	2,464
Municipal court	-	-	-	15,133
Public safety	-	-	-	85,440
Other purposes	-	-	-	184,296
Unassigned	618,728	-	-	(110,583)
Total Fund Balances	618,728	348,997	1,191,287	599,524
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,057,395	\$ 410,155	\$ 1,205,244	\$ 710,276

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 2,572,265

152,927
77,730
20,389
559,759
\$ 3,383,070

\$ 71,715
64,765
335,127
471,607

152,927
152,927

348,997
1,614,061
2,464
15,133
85,440
184,296
508,145
2,758,536

\$ 3,383,070

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City of Farmersville, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2018

Fund Balances - Total Governmental Funds	\$ 2,758,536
 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 funds.	
Capital assets - non-depreciable	1,467,102
Capital assets - net depreciable	6,417,642
 Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	152,927
 Deferred outflows (inflows) of resources represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow (inflow) of resources (expenditures) until then.	
Pension contributions	91,771
OPEB contributions	431
Pension investment earnings	(6,337)
Pension change in assumptions	(91,171)
Pension (gains) losses	6,436
OPEB (gains) losses	3,654
Changes in pension proportion	4,290
Deferred charge on refunding	34,145
 Some liabilities, including bonds payable and deferred charges are not reported as liabilities in the governmental funds.	
Accrued interest	(35,589)
Premiums on bonds payable	(413,583)
Non-current liabilities due in one year	(636,201)
Non-current liabilities due in more than one year	(6,920,488)
OPEB liability	(60,784)
Net pension liability	(275,108)
	\$ 2,497,673

City of Farmersville, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds
<u>Revenues</u>				
Property tax	\$ 701,635	\$ 810,460	\$ -	\$ 211,217
Sales tax	454,406	-	-	-
Franchise and local taxes	142,403	-	-	-
License and permits	36,915	-	-	-
Charges for services	153,089	-	-	-
Fines and forfeitures	155,610	-	-	13,029
Intergovernmental	168,664	-	-	1,202
Donations and contributions	-	-	-	244
Grant income	-	-	-	144,249
Investment income	17,054	6,095	17,008	3,928
Other revenues	212,770	-	-	-
Total Revenues	2,042,546	816,555	17,008	373,869
<u>Expenditures</u>				
Current:				
Mayor and city council	8,638	-	-	-
Administration	823,945	-	-	-
Library and civic center	290,262	-	-	-
Municipal court	198,391	-	-	13,225
Police	1,120,917	-	-	356
Fire and EMS	409,896	-	-	-
Public works	744,218	-	-	310,548
Debt service:				
Principal	165,597	470,000	-	-
Interest and fiscal charges	12,059	248,381	-	-
Issuance costs	-	-	-	9,662
Capital outlay	-	-	72,271	-
Total Expenditures	3,773,923	718,381	72,271	333,791
Revenues Over (Under) Expenditures	(1,731,377)	98,174	(55,263)	40,078
<u>Other Financing Sources (Uses)</u>				
Transfers in	1,424,286	-	-	-
Transfers (out)	-	-	(17,575)	(29,013)
Proceeds from debt issuance	45,615	-	-	130,000
Total Other Financing Sources (Uses)	1,469,901	-	(17,575)	100,987
Net Change in Fund Balances	(261,476)	98,174	(72,838)	141,065
Beginning fund balances	880,204	250,823	1,264,125	458,459
Ending Fund Balances	\$ 618,728	\$ 348,997	\$ 1,191,287	\$ 599,524

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 1,723,312
 454,406
 142,403
 36,915
 153,089
 168,639
 169,866
 244
 144,249
 44,085
 212,770

3,249,978

8,638
 823,945
 290,262
 211,616
 1,121,273
 409,896
 1,054,766

635,597
 260,440
 9,662
 72,271

4,898,366

(1,648,388)

1,424,286
 (46,588)
 175,615

1,553,313

(95,075)

2,853,611

\$ 2,758,536

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City of Farmersville, Texas

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

For the Year Ended September 30, 2018

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

Net changes in fund balances - total governmental funds	\$	(95,075)
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Governmental funds report 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		638,438
Contributed capital		1,123,834
Depreciation expense		(687,388)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

3,511

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 governmental funds.

Compensated absences		(6,787)
Accrued interest		(745)
Pension expense		18,726
OPEB expense		(5,107)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of notes payable		(175,615)
Amortization of deferred charges on refunding		(2,008)
Amortization of debt premium		24,688
Principal payments		635,597

Change in Net Position of Governmental Activities	\$	1,472,069
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See Notes to Financial Statements.

City of Farmersville, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2018

	Water Fund	Wastewater Fund	Electric Utility	Nonmajor Refuse Utility
<u>Assets</u>				
<u>Current Assets</u>				
Cash and cash equivalents	\$ 989,956	\$ 4,581,752	\$ 573,485	\$ 24,253
Accounts and other receivables	152,987	116,958	491,764	58,743
Due from other funds	-	777,840	-	-
Total Current Assets	1,142,943	5,476,550	1,065,249	82,996
<u>Noncurrent Assets</u>				
Capital assets:				
Non-depreciable	92,285	1,985,124	27,192	-
Net depreciable capital assets	4,202,807	2,506,372	999,633	-
Total Noncurrent Assets	4,295,092	4,491,496	1,026,825	-
Total Assets	5,438,035	9,968,046	2,092,074	82,996
<u>Deferred Outflows of Resources</u>				
Pension contributions	17,545	-	25,642	-
Pension (gains) losses	1,249	-	1,826	-
OPEB contributions	82	-	120	-
OPEB (gains) losses	699	-	1,021	-
Total Deferred Outflows of Resources	19,575	-	28,609	-
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accounts payable	13,552	106,002	20,056	35,181
Accrued liabilities	12,289	45,212	16,064	-
Customer deposits	79,812	-	229,277	-
Due to other funds	522,176	-	480,296	-
Current portion of long-term debt	3,932	285,000	143,750	-
Total Current Liabilities	631,761	436,214	889,443	35,181
<u>Noncurrent Liabilities</u>				
Long-term debt	437	5,560,000	1,528	-
OPEB liability	11,620	-	16,984	-
Net pension liability	45,227	-	66,101	-
Total Liabilities	689,045	5,996,214	974,056	35,181
<u>Deferred Inflows of Resources</u>				
Pension investment earnings	804	-	1,176	-
Pension change in assumptions	17,457	-	25,514	-
Total Deferred Inflows of Resources	18,261	-	26,690	-
<u>Net Position</u>				
Net investment in capital assets	4,295,092	1,185,946	884,039	-
Unrestricted	455,212	2,785,886	235,898	47,815
Total Net Position	\$ 4,750,304	\$ 3,971,832	\$ 1,119,937	\$ 47,815

See Notes to Financial Statements.

**Total
Proprietary
Funds**

\$ 6,169,446
820,452
777,840
7,767,738

2,104,601
7,708,812
9,813,413
17,581,151

43,187
3,075
202
1,720
48,184

174,791
73,565
309,089
1,002,472
432,682
1,992,599

5,561,965
28,604
111,328
7,694,496

1,980
42,971
44,951

6,365,077
3,524,811
\$ 9,889,888

City of Farmersville, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2018

	Water Fund	Wastewater Fund	Electric Utility	Nonmajor Refuse Utility
<u>Operating Revenues</u>				
Utility sales	\$ 1,305,822	\$ 984,619	\$ 3,775,218	\$ 460,238
Service fees	14,964	22,741	44,696	10,579
Sales tax revenue	-	-	39,007	-
Penalties and fees	493,634	-	-	-
Miscellaneous	-	18,443	-	-
Total Operating Revenues	1,814,420	1,025,803	3,858,921	470,817
<u>Operating Expenses</u>				
Personnel	321,709	88,740	543,686	-
Contract and professional services	88,867	12,042	69,339	352,392
Maintenance	151,924	377,592	75,571	-
Operations	15,554	29,105	1,885,597	6,455
Supplies	788,177	13,555	58,531	-
Miscellaneous	28,789	15,600	19,783	3,551
Depreciation	248,484	132,949	77,489	-
Total Operating Expenses	1,643,504	669,583	2,729,996	362,398
Operating Income (Loss)	170,916	356,220	1,128,925	108,419
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	15,891	68,280	7,657	-
Interest expense	-	(68,878)	(5,771)	-
Total Nonoperating Revenues (Expenses)	15,891	(598)	1,886	-
Income (Loss) Before Transfers and Contributed Capital	186,807	355,622	1,130,811	108,419
Transfers in	17,575	444,583	-	-
Transfers (out)	(537,444)	(252,780)	(939,206)	(110,426)
Contributed capital	675,107	974,257	-	-
Change in Net Position	342,045	1,521,682	191,605	(2,007)
Beginning net position	4,408,259	2,450,150	928,332	49,822
Ending Net Position	\$ 4,750,304	\$ 3,971,832	\$ 1,119,937	\$ 47,815

See Notes to Financial Statements.

**Total
Proprietary
Funds**

\$ 6,525,897
92,980
39,007
493,634
18,443

7,169,961

954,135
522,640
605,087
1,936,711
860,263
67,723
458,922

5,405,481

1,764,480

91,828

(74,649)

17,179

1,781,659

462,158
(1,839,856)
1,649,364

2,053,325

7,836,563

\$ 9,889,888

City of Farmersville, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2018

	Water Fund	Wastewater Fund	Electric Utility	Nonmajor Refuse Utility
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 1,807,385	\$ 1,015,842	\$ 3,841,418	\$ 465,320
Payments to employees	(303,505)	(88,740)	(537,154)	-
Payments to suppliers and contractors	(991,735)	(474,504)	(2,134,740)	(362,313)
Net Cash Provided by (Used for) Operating Activities	512,145	452,598	1,169,524	103,007
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers (out)	(537,444)	(252,780)	(939,206)	(110,426)
Transfers in	17,575	444,583	-	-
Net Cash Provided by (Used for) Noncapital Financing Activities	(519,869)	191,803	(939,206)	(110,426)
<u>Cash Flows from Capital and Related Financing Activities</u>				
Purchases of capital assets	(44,574)	(2,116,647)	(100,315)	-
Principal paid on capital debt	-	-	(125,000)	-
Net Cash Provided by (Used for) Capital and Related Financing Activities	(44,574)	(2,116,647)	(225,315)	-
<u>Cash Flows from Investing Activities</u>				
Interest paid on debt	-	-	(5,771)	-
Interest on investments	15,891	(598)	7,657	-
Net Cash Provided by (Used for) Investing Activities	15,891	(598)	1,886	-
Net Increase (Decrease) in Cash and Cash Equivalents	(36,407)	(1,472,844)	6,889	(7,419)
Beginning cash and cash equivalents	1,026,363	6,054,596	566,596	31,672
Ending Cash and Cash Equivalents	\$ 989,956	\$ 4,581,752	\$ 573,485	\$ 24,253

See Notes to Financial Statements.

**Total
Proprietary
Funds**

\$	7,129,965
	(929,399)
	(3,963,292)
	<hr/>
	2,237,274
	<hr/>
	(1,839,856)
	462,158
	<hr/>
	(1,377,698)
	<hr/>
	(2,261,536)
	(125,000)
	<hr/>
	(2,386,536)
	<hr/>
	(5,771)
	22,950
	<hr/>
	17,179
	<hr/>
	(1,509,781)
	7,679,227
	<hr/>
\$	<u><u>6,169,446</u></u>

City of Farmersville, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2018

	Water Fund	Wastewater Fund	Electric Utility	Nonmajor Refuse Utility
<u>Reconciliation of Operating</u>				
<u>Income (Loss) to Net Cash Provided by</u>				
<u>(Used for) Operating Activities</u>				
Operating Income (Loss)	\$ 170,916	\$ 356,220	\$ 1,128,925	\$ 108,419
Adjustments to reconcile operating income (loss) to net cash provided by (used):				
Depreciation	248,484	132,949	77,489	-
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	(7,134)	(9,961)	(24,093)	(5,497)
Intergovernmental receivables	129,924	(172,205)	(24,852)	-
Deferred Outflows of Resources:				
Pension contributions	(6,876)	-	(2,108)	-
Actual experience vs. assumption	(6,823)	-	(14,122)	-
OPEB contributions	33	-	487	-
OPEB actual experience vs. assumption	(699)	-	(1,021)	-
Increase (Decrease) in:				
Accounts payable and accrued liabilities	(48,348)	145,595	(1,067)	85
Customer deposits	99	-	6,590	-
Deferred Inflows of Resources:				
Assumption changes	19,084	-	29,103	-
Investment experience	16,744	-	36,335	-
OPEB liability	1,742	-	2,547	-
Net pension liability	(5,001)	-	(44,689)	-
Net Cash Provided by (Used for) Operating Activities	\$ 512,145	\$ 452,598	\$ 1,169,524	\$ 103,007

**Schedule of Non-Cash Capital and
Related Financing Activities:**

Contribution of capital assets	\$ 675,107	\$ 974,257	\$ -	\$ -
--------------------------------	------------	------------	------	------

See Notes to Financial Statements.

**Total
Proprietary
Funds**

\$ 1,764,480

458,922

(46,685)

(67,133)

(8,984)

(20,945)

520

(1,720)

96,265

6,689

48,187

53,079

4,289

(49,690)

\$ 2,237,274

\$ 1,649,364

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City of Farmersville, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Farmersville, Texas (the "City") was incorporated under the laws of the State of Texas on June 2, 1873.

The City operates under a "General Law" City which provides for a "Mayor-Council" form of government. All powers of the City shall be vested in an elective council, hereinafter referred to as the "Council," which shall enact local legislation, adopt budgets, determine policies, and appoint the City Attorney and the Judge of the Municipal Court. The City provides the following services as authorized by its charter: public safety, streets & roads, sanitation, water & sewer, electric, culture-recreation, public improvements and administrative services.

The City is an independent political subdivision of the State of Texas governed by an elected council and 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. 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. The component units, although legally separate, are considered part of the reporting entity. No other entities have been included in the City's 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 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.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Discretely Presented Component Units

Economic Development Corporation – 4A

The Farmersville Economic Development Corporation (the “EDC”) was incorporated by the City under the Development Corporation Act of 1979, as amended, Article 5190.6 Vernon's Annotated Civil Statutes, Section 4B, as amended (the Act). The EDC serves all citizens of the City and is governed by a seven member board of directors appointed by the City Council. An Executive Director is appointed by the EDC seven member board to carry out the Board's administrative and policy initiatives. The purpose of the EDC is to promote economic development within the City and the State of Texas in order to enhance the employment and the public welfare for, and on behalf of, the City in a manner and purpose authorized by Section 4A of the Act. The EDC's board is not substantially the same as the City's governing body. In addition, the EDC does not provide services entirely, or almost entirely to the City, not does it maintain debt pf any type that are repaid using City sources. The EDC's financial statements are presented discretely as a part of the financial statements of the City. The EDC does not issue separate financial statements.

Community Development Corporation – 4B

The purpose of the City of Farmersville Community Development Corporation (the “CDC”) is to promote economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and to encourage employment and the public welfare of, for and on behalf of the City, and for parks, auditoriums, learning centers, open space improvements, athletic and exhibition facilities, and other related improvements and for maintenance and operating costs of publicly owned and operated projects by developing, implementing, providing, and financing projects. The CDC's board is not substantially the same as the City's governing body. In addition, the CDC does not provide services entirely, or almost entirely to the City, not does it maintain debt pf any type that are repaid using City sources. The CDC's financial statements are presented discretely as a part of the financial statements of the City. The CDC does not issue separate financial statements.

Blended Component Units

Tax Increment Financing Reinvestment Zone

The City created the Tax Increment Financing Reinvestment Zone Fund (the “TIRZ”) in December 2011 to encourage and accelerate planned development of a certain contiguous geographic area within its jurisdiction and extra-territorial jurisdiction. Of the five member Board of Directors three are appointed by the Farmersville City Council and two members shall be appointed by the County Commissioners Court of Collin County and serve for two-year staggered terms. The members of the Board are citizens of Farmersville. Any future debt obligations issued and backed by the TIRZ are to be repaid from property tax levies, based on the incremental increase in the real property values from the base year 2011.

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The TIRZ Board of Directors acts primarily in an advisory role to the City Council, who exercise the ultimate financial control over the recommendations of the TIRZ board, including its budget and expenditures. The financial information of the TIRZ is blended as a governmental fund into the primary government. Separate financial statements are not prepared.

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Requirements of the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations;
- Financial statements prepared using full accrual accounting for all of the City’s activities;
- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets**—This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

C. Government-Wide and Fund Financial Statements

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

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The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The government reports the following governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed and focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between its governmental fund assets and its liabilities and deferred inflows of resources as fund balance.

General Fund

The General Fund is the main operating fund of the City. The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, library and civic center, municipal court, public safety and public works. The general service fund is considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

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Capital Projects Fund

The capital projects fund is used to account for the expenditures of resources accumulated from the sale of bonds and related interest earnings, contributed capital or transfers from other funds, other than those recorded in the enterprise funds, for acquisition of capital facilities. The capital projects fund is considered a major fund for reporting purposes.

Special Revenue Funds

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The proprietary fund types used by the City include enterprise funds.

The government reports the following enterprise funds:

Water

This fund is used to account for the provision of water services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund. The water fund is considered a major fund for reporting purposes.

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Wastewater

This fund is used to account for the provision of wastewater services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water collection and treatment systems. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

This fund is used to account for the provision of electricity services to the residents of the City. Activities of the fund include administration, operations and maintenance of the electrical equipment. The fund also accounts for the accumulation of resources for and the payment of long-term debt, principal and interest. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund. The wastewater fund is considered a major fund for reporting purposes.

Electric

This fund is used to account for the provision of electric services to the residents of the City. Activities of the fund include administration, operations and maintenance of the electric production and distribution system. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund. The electric fund is considered a major fund for reporting purposes.

Refuse

This fund is used to account for the provision of sanitation services to the residents of the City. Activities of the fund include administration activities to maintain the services. All costs are financed through charges to sanitation customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund. The refuse fund is considered a nonmajor fund for reporting purposes.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Measurement focus refers to what is being measured and basis of accounting refers to when transactions are recorded in the financial records and reported on the financial statements and relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable. Proprietary fund equity consists of net position. Proprietary fund-type

City of Farmersville, Texas
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operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

All governmental funds and component units are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. 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 and 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.

E. Assets, liabilities, deferred inflows/outflows, and net position/fund balance

1. Deposits and Investments

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 types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexSTAR, are reported using the pools' share price.

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The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

Direct obligations of the U.S. Government
Fully collateralized certificates of deposit and money market accounts
Statewide investment pools

2. Fair Value Measurement

The City has applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as “due to/from component unit/primary government.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

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5. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

6. 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 government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with 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, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Equipment and vehicles	5-20 years
Infrastructure	15 to 100 years
Utility systems	10 to 40 years
Buildings and improvements	20-50 years

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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.

An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value

City of Farmersville, Texas
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of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net 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 government 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.

8. Net Position Flow Assumption

Sometimes the government 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 statements, a flow assumption must be made about the order in which the resources are considered to be applied.

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

9. Fund Balance Flow Assumptions

Sometimes the government 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 government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making

City of Farmersville, Texas
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authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The 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.

11. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

Amounts of vested or accumulated sick leave and compensatory time that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

12. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. However, claims and judgments paid from governmental funds are reported

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as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

13. Pensions

For 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.

14. Other Postemployment Benefits ("OPEB")

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. 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 on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to

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be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

F. Revenues and expenditures/expenses

1. Program revenues

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

2. 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 utility fund are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds. Reconciling items have been presented on the balance sheet of governmental funds in the basic financial statements.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. A reconciliation has been presented in the basic financial statements.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, special revenue, and utility funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the department level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. One budget amendment was made during the year.

A. Expenditures Over Appropriations

For the year ended, general fund expenditures exceeded appropriations at the legal level of control and as follows:

Administration	\$ 63,502
Library and civic center	\$ 90,364
Police	\$ 36,059
Debt service - principal	\$ 3,530
Debt service - interest	\$ 5,291

The City has implemented procedures to ensure budgetary compliance. No expenditure can be made unless there is a budget available or an approved budget amendment has been submitted. Department head and management will review the budget variances on a regular basis and the budget will be amended if necessary.

B. Deficit Fund Equity

At September 30, 2018, the Chapparral Grant Fund, Municipal Court Technology, Sidewalk Grant Fund, and South Rike Street Grant Fund have a deficit fund balance of \$55,742, \$2,797, \$51,241, and \$803, respectively. The deficit balances will be eliminated in the future with transfers from other funds and fines and forfeitures received.

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NOTES TO FINANCIAL STATEMENTS, Continued
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IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2018, the primary government had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity (Years)
Investment pools	\$ 5,571,699	0.09
Total carrying value	\$ 5,571,699	
Portfolio weighted average maturity		0.09

As of September 30, 2018, the discretely presented component unit had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 250,000	0.14
Investment pools	974,352	0.08
Total carrying value	\$ 1,224,352	
Portfolio weighted average maturity		0.11

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

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. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2018, the market values of pledged securities and FDIC exceeded bank balances.

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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 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. At September 30, 2018, the fair value of the position in TexPool approximates fair value of the shares. There were no limitations or restrictions on withdrawals.

TexStar

The TexStar Participant Services Local Government Investment Pool ("TexStar") is an external investment pool operated by First Southwest Asset Management, Inc. and is not SEC registered. The Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act provide for creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller has established an advisory board composed both of participants in TexStar and of other persons who do not have a business relationship with TexStar. The Advisory Board members review the investment policy and management fee structure. Standard & Poor's rates TexStar AAAM. At September 30, 2018, the fair value of the position in TexStar approximates fair value of the shares. There were no limitations or restrictions on withdrawals.

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B. Receivables

The following comprise receivable balances of the City at year end:

Governmental Funds

	General	Debt Service	Total
Property taxes	\$ 91,769	\$ 61,158	\$ 152,927
Sales tax	77,730	-	77,730
Other	20,389	-	20,389
	<u>\$ 189,888</u>	<u>\$ 61,158</u>	<u>\$ 251,046</u>

Enterprise Funds

	Water	Wastewater	Electric	Refuse	Total
Accounts	\$ 197,112	\$ 170,345	\$ 599,985	\$ 88,061	\$ 1,055,503
Other	12,897	-	-	-	12,897
Allowance	(57,022)	(53,387)	(108,221)	(29,318)	(247,948)
	<u>\$ 152,987</u>	<u>\$ 116,958</u>	<u>\$ 491,764</u>	<u>\$ 58,743</u>	<u>\$ 820,452</u>

Component Units

	Economic Development Corporation	Community Development Corporation
Sales tax	\$ 37,865	\$ 37,865
	<u>\$ 37,865</u>	<u>\$ 37,865</u>

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

C. Capital Assets

The primary government's summary of changes in governmental activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 1,245,042	\$ 69,000	\$ -	\$ 1,314,042
Construction in progress	17,730	135,330	-	153,060
Total capital assets not being depreciated	<u>1,262,772</u>	<u>204,330</u>	<u>-</u>	<u>1,467,102</u>
Capital assets, being depreciated:				
Buildings and improvements	2,089,203	112,331	-	2,201,534
Vehicles and equipment	2,396,757	260,336	-	2,657,093
Infrastructure	14,211,982	1,185,275	-	15,397,257
Total capital assets being depreciated	<u>18,697,942</u>	<u>1,557,942</u>	<u>-</u>	<u>20,255,884</u>
Less accumulated depreciation				
Buildings and improvements	(1,475,374)	(51,734)	-	(1,527,108)
Vehicles and equipment	(1,761,282)	(208,076)	-	(1,969,358)
Infrastructure	(9,914,198)	(427,578)	-	(10,341,776)
Total accumulated depreciation	<u>(13,150,854)</u>	<u>(687,388)</u>	<u>-</u>	<u>(13,838,242)</u>
Net capital assets being depreciated	<u>5,547,088</u>	<u>870,554</u>	<u>-</u>	<u>6,417,642</u>
Total Capital Assets	<u><u>\$ 6,809,860</u></u>	<u><u>\$ 1,074,884</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,884,744</u></u>

Depreciation was charged to governmental functions as follows:

General and administrative	\$ 19,013
Library	4,579
Public safety	125,345
Public works	512,375
Community development	26,076
Total Governmental Activities Depreciation Expense	<u><u>\$ 687,388</u></u>

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 77,285	\$ -	\$ -	\$ 77,285
Construction in progress	445,413	2,102,439	(520,536)	2,027,316
Total capital assets not being depreciated	<u>522,698</u>	<u>2,102,439</u>	<u>(520,536)</u>	<u>2,104,601</u>
Capital assets, being depreciated:				
Buildings and improvements	231,192	-	-	231,192
Vehicles and equipment	1,475,504	159,097	-	1,634,601
Infrastructure	12,165,508	1,649,364	520,536	14,335,408
Total capital assets being depreciated	<u>13,872,204</u>	<u>1,808,461</u>	<u>520,536</u>	<u>16,201,201</u>
Less accumulated depreciation				
Buildings and improvements	(25,810)	(5,405)	-	(31,215)
Vehicles and equipment	(630,067)	(111,725)	-	(741,792)
Infrastructure	(7,377,590)	(341,792)	-	(7,719,382)
Total accumulated depreciation	<u>(8,033,467)</u>	<u>(458,922)</u>	<u>-</u>	<u>(8,492,389)</u>
Net capital assets being depreciated	<u>5,838,737</u>	<u>1,349,539</u>	<u>520,536</u>	<u>7,708,812</u>
Total Capital Assets	<u>\$ 6,361,435</u>	<u>\$ 3,451,978</u>	<u>\$ -</u>	<u>\$ 9,813,413</u>

Depreciation was charged to business-type functions as follows:

Water	\$ 248,484
Wastewater	132,949
Electric	77,489
Total Business-Type Activities Depreciation Expense	<u>\$ 458,922</u>

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

A summary of changes in component-unit activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 182,820	\$ -	\$ -	\$ 182,820
Construction in progress	10,000	-	-	10,000
Total capital assets not being depreciated	<u>192,820</u>	<u>-</u>	<u>-</u>	<u>192,820</u>
Capital assets, being depreciated:				
Office equipment	-	7,425	-	7,425
Total capital assets being depreciated	<u>-</u>	<u>7,425</u>	<u>-</u>	<u>7,425</u>
Less accumulated depreciation				
Office equipment	-	(309)	-	(309)
Total accumulated depreciation	<u>-</u>	<u>(309)</u>	<u>-</u>	<u>(309)</u>
Net capital assets being depreciated	<u>-</u>	<u>7,116</u>	<u>-</u>	<u>7,116</u>
Total Capital Assets	<u>\$ 192,820</u>	<u>\$ 7,116</u>	<u>\$ -</u>	<u>\$ 199,936</u>

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

D. Long-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 7,525,000	\$ -	\$ (470,000)	\$ 7,055,000	\$ 470,000
Premium	438,271	-	(24,688)	413,583	-
	<u>7,963,271</u>	<u>-</u>	<u>(494,688)</u>	<u>7,468,583</u>	<u>470,000</u>
Other liabilities:					
Notes payable	425,079	175,615	(165,597)	435,097	106,268
Compensated absences	59,805	6,787	-	66,592	59,933
Total Governmental Activities	<u>\$ 8,448,155</u>	<u>\$ 182,402</u>	<u>\$ (660,285)</u>	<u>\$ 7,970,272</u>	<u>\$ 636,201</u>
Long-term liabilities due in more than one year				<u>\$ 7,334,071</u>	
Business-Type Activities:					
Notes payable	\$ 255,000	\$ -	\$ (125,000)	\$ 130,000	\$ 130,000
Certificates of Obligation	5,845,000	-	-	5,845,000	285,000
Compensated absences	16,747	2,900	-	19,647	17,682
Total Business-Type Activities	<u>\$ 6,116,747</u>	<u>\$ 2,900</u>	<u>\$ (125,000)</u>	<u>\$ 5,994,647</u>	<u>\$ 432,682</u>
Long-term liabilities due in more than one year				<u>\$ 5,561,965</u>	
Component-Unit Activities:					
Notes payable	\$ 78,992	\$ -	\$ (16,040)	\$ 62,952	\$ 16,947
Total Business-Type Activities	<u>\$ 78,992</u>	<u>\$ -</u>	<u>\$ (16,040)</u>	<u>\$ 62,952</u>	<u>\$ 16,947</u>
Long-term liabilities due in more than one year				<u>\$ 46,005</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Long-term debt at year end was comprised of the following debt issues:

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
General Obligation Bonds:			
\$1,500,000 General Obligation Bonds, Series 2012 due in installments through 2032, interest at 1.25% to 3.125%	\$ 1,155,000	\$ -	\$ 1,155,000
\$2,185,000 General Obligation Refunding Bonds, Series 2014 due in installments through 2034, interest at 2% to 4%	1,720,000	-	1,720,000
\$4,855,000 General Obligation Refunding Bonds, Series 2015 due in installments through 2035, interest at 2% to 4%	4,180,000	-	4,180,000
Total General Obligation Bonds	<u>\$ 7,055,000</u>	<u>\$ -</u>	<u>\$ 7,055,000</u>
Certificates of Obligation:			
\$5,845,000 Certificates of Obligation Bonds, Series 2017 due in installments through 2037, interest at .02% to 1.90%	\$ -	\$ 5,845,000	\$ 5,845,000
Total Certificates of Obligation	<u>\$ -</u>	<u>\$ 5,845,000</u>	<u>\$ 5,845,000</u>
Notes Payable:			
\$265,000 Public Property Finance Contractual Obligations due in annual installments through 2016, interest at 5%	\$ 140,000	\$ -	\$ 140,000
\$625,000 Notes Payable, Series 2013, due in annual installments through 2019, interest at 0.86% to 1.89%	-	130,000	130,000
\$206,572 Caterpillar Financial Contract 001-0785042 due in monthly installments through 2020, interest at 3.2%	142,765	-	142,765
\$130,000 Tax Notes, Series 2018 due in annual installments through 2023, interest at 3.70%	130,000	-	130,000
\$45,615 Public Property Finance Act Contract 8321 due in monthly installments through 2019, interest at 5.39%	22,332	-	22,332
Total Notes Payable	<u>\$ 435,097</u>	<u>\$ 130,000</u>	<u>\$ 565,097</u>
	<u>Component Unit</u>		
Notes Payable:			
\$91,701 Notes Payable, Series 2012 due in monthly installments through 2022, interest at 5%	62,952		
Total Notes Payable	<u>\$ 62,952</u>		

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The annual requirements to amortize governmental activities bond issues outstanding at year ending were as follows:

Governmental Activities		
Year ending September 30,	General Obligation Bonds	
	Principal	Interest
2019	\$ 470,000	\$ 235,056
2020	495,000	222,456
2021	515,000	208,931
2022	525,000	192,731
2023	545,000	174,106
2024	560,000	154,881
2025	585,000	134,881
2026	540,000	114,816
2027	310,000	99,584
2028	320,000	88,588
2029	335,000	77,066
2030	345,000	64,753
2031	355,000	51,831
2032	375,000	38,241
2033	280,000	25,600
2034	300,000	10,000
2020	200,000	-
Total	\$ 7,055,000	\$ 1,893,521

The 2015 general obligation refunding bonds were issued September 8, 2015, due in annual installments through 2035, bearing interest ranging from 2.0% to 4.0% payable February 15 and August 15. Of the \$4,855,000 issued, \$2,150,000 of the 2006 series certificate of obligation was refunded.

The 2014 general obligation refunding bonds and the 2012 general obligation were used for the purpose of street improvements, including drainage, curbs, gutters, bridges, acquisition of equipment, machinery, land and right of ways as well as construction, acquiring, purchasing, renovating, enlarging, equipping and improving water and sewer system properties and facilities.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The annual requirements to amortize total governmental notes payable at year ending were as follows:

Governmental Activities		
Year ending September 30,	Notes Payable	
	Principal	Interest
2019	\$ 106,268	\$ 14,065
2020	84,713	8,615
2021	154,116	4,044
2022	60,000	1,923
2023	30,000	555
	\$ 435,097	\$ 29,202

The annual requirements to amortize total business-type notes payable at year ending were as follows:

Business-Type Activities				
Year ending September 30,	Notes Payable		Certificates of Obligation	
	Principal	Interest	Principal	Interest
2019	\$ 130,000	\$ 1,229	\$ 285,000	\$ 69,173
2020	-	-	285,000	69,173
2021	-	-	285,000	69,116
2022	-	-	290,000	68,660
2023	-	-	290,000	67,819
2024	-	-	290,000	66,369
2025	-	-	290,000	64,397
2026	-	-	295,000	61,816
2027	-	-	300,000	58,719
2028	-	-	300,000	55,029
2029	-	-	305,000	50,919
2030	-	-	310,000	46,435
2031	-	-	315,000	41,599
2032	-	-	320,000	36,465
2033	-	-	325,000	31,025
2034	-	-	330,000	25,272
2035	-	-	335,000	19,299
2036	-	-	345,000	13,102
2037	-	-	350,000	6,650
	\$ 130,000	\$ 1,229	\$ 5,845,000	\$ 921,037

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The annual requirements to amortize total component units notes payable at year ending were as follows:

Year ending September 30,	Component Units	
	Notes Payable	
	Principal	Interest
2019	\$ 16,947	\$ 3,046
2020	17,905	2,088
2021	18,917	1,076
2022	9,183	141
	\$ 62,952	\$ 6,351

E. Deferred Charge on Refunding

A deferred charge resulting from the issuance of the 2015 general obligation refunding bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for governmental activities totaled \$29,957. Current year amortization expense for governmental activities totaled \$1,762.

A deferred charge resulting from the issuance of the 2014 general obligation refunding bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for governmental activities totaled \$4,188. Current year amortization expense for governmental activities totaled \$246.

F. Interfund Transactions

Transfers between the primary government funds during the 2018 year were as follows:

Transfer-In	Transfer-Out	Amount
General	Water Fund	\$ 92,861
General	Wastewater Fund	252,780
General	Electric Utility	939,206
General	Refuse Utility	110,426
General	TIRZ	29,013
Wastewater Fund	Water Fund	444,583
Water Fund	Capital Projects	17,575
		\$ 1,886,444

Amounts transferred between funds relate to amounts collected by the governmental and enterprise funds for various capital expenditures and principal and interest payments.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt Service	General	\$ 225,784
Debt Service	Capital Projects	11,711
Nonmajor Governmental	Nonmajor Governmental	97,632
Nonmajor Governmental	Water	224,632
Wastewater	Water	297,544
Wastewater	Electric	480,296
	Total	<u><u>\$ 1,337,599</u></u>

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

G. Restricted Net Position / Fund Balance

The City records fund balance restrictions on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of restricted net position / fund balance of the City:

	<u>Governmental Activities</u>	<u>Governmental Funds</u>
Restricted for:		
Debt service	\$ 348,997	\$ 348,997
Capital projects	-	1,614,061
Library	2,464	2,464
* Municipal court	15,133	15,133
Public safety	85,440	85,440
Other purposes	184,296	184,296
Total	<u><u>\$ 636,330</u></u>	<u><u>\$ 2,250,391</u></u>

*Restricted by enabling legislation

V. 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 over 2,800 other entities in the Texas Municipal League Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates 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 of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

The City uses a number of approaches to decrease risks and protect against losses to the City, including internal practices, employee training, and a code of ethics, which all employees are required to acknowledge.

The City owns and operates motor vehicles and may provide such vehicle to employees for business use during the course and scope of their employment. The City is insured as to its own property losses, and the liability of loss to others.

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 amounts of expenditures which 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.

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

D. Pension Plans

Texas Municipal Retirement System

1. Plan Description

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

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

2. Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2017</u>	<u>Plan Year 2016</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years 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	15
Inactive employees entitled to but not yet receiving benefits	15
Active employees	<u>35</u>
Total	<u>68</u>

3. Contributions

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

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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Employees for the City of Farmersville, Texas were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Farmersville, Texas were 8.77% and 8.52% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$179,231, and were equal to the required contributions.

4. Net Pension Liability (Asset)

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

Actuarial assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% 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 (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	<u>5.0%</u>	7.50%
Total	100.0%	

Discount Rate

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

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 1,126,534	\$ 347,898	\$ (294,671)

Changes in the Net Pension (Asset) Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)
Balance at 12/31/16	\$ 5,253,518	\$ 4,627,233	\$ 626,285
Changes for the year:			
Service cost	241,395	-	241,395
Interest	356,264	-	356,264
Change in benefit terms	-	-	-
Difference between expected and actual experience	40,315	-	40,315
Changes of assumptions	-	-	-
Contributions – employer	-	177,306	(177,306)
Contributions – employee	-	101,087	(101,087)
Net investment income	-	641,460	(641,460)
Benefit payments, including refunds of emp. contributions	(192,468)	(192,468)	-
Administrative expense	-	(3,324)	3,324
Other changes	-	(168)	168
Net changes	445,506	723,893	(278,387)
Balance at 12/31/17	\$ 5,699,024	\$ 5,351,126	\$ 347,898

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.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

For the year ended September 30, 2018, the City recognized pension expense of \$179,314.

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between projected and investment earnings	\$ -	\$ (6,187)
Change in actuarial assumptions	-	(134,286)
Differences between expected and actual economic experience	9,612	-
Contributions subsequent to the measurement date	134,958	-
Total	\$ 144,570	\$ (140,473)

The City reported \$134,958 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended	
December 31:	
2018	\$ 3,340
2019	(11,381)
2020	(59,279)
2021	(63,541)
2022	-
Thereafter	-
	\$ (130,861)

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

6. Other Postemployment Benefits

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

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

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

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	11
Inactive employees entitled to but not yet receiving benefits	3
Active employees	35
Total	49

The City's retiree contribution rates to the TMRS SDBF for the years ended 2018, 2017 and 2016 were \$836, \$1,198 and \$1,186, respectively, which equaled the required contribution each year.

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2016	0.06%	0.06%	100.0%
2017	0.06%	0.06%	100.0%
2018	0.04%	0.04%	100.0%

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2017, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount rate	3.31%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.31%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

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

1% Decrease (2.31%)	Current Single Rate Assumption 3.31%	1% Increase (4.31%)
\$ 105,581	\$ 89,388	\$ 76,529

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/16	\$ 75,987
Changes for the year:	
Service Cost	4,852
Interest	2,949
Changes of assumptions	6,409
Benefit payments	(809)
Net changes	13,401
Balance at 12/31/17	\$ 89,388

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$8,836.

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

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 5,374
Contributions subsequent to measurement date	633
Total	\$ 6,007

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The City reported \$633 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2019.

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

Year ended December 31:	
2018	\$ 1,035
2019	1,035
2020	1,035
2021	1,035
2022	1,035
Thereafter	199
	\$ 5,374

Texas Emergency Services Retirement System

1. Plan Description

The Fire Fighter’s Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2018, there were 235 member fire or emergency services departments actively participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2018, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,533
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	1,927
Active Participants (Vested and Nonvested)	<u>3,927</u>
Total	<u>9,387</u>

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

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

2. Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities. According to the state law governing the System, the state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended in 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the board to be 2% of the Part One contributions beginning September 1, 2017. Based on the August 31, 2018 actuarial valuation, the Part Two contributions are not required for an adequate contribution arrangement.

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

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

3. Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2018, total contributions (dues and prior service) of \$4,098,835 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated \$1,329,224 for the fiscal year ending August 31, 2018.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in Section I(B)(1). The most recently completed biennial actuarial valuation as of August 31, 2018 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state.

The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$725,000 each year to pay for part of the System's administrative expenses.

Valuation Date	<u>August 31, 2014</u>	<u>August 31, 2016</u>	<u>August 31, 2018</u>
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level dollar, open	Level dollar, open	Level dollar, open
Amortization	30 years	30 years	30 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Actuarial Assumptions:			
Investment Rate of Return *	7.75% per year, net of investment expenses	7.75% per year, net of investment expenses	7.75% per year, net of investment expenses
Projected Salary Increases *	N/A	N/A	N/A
* Includes Inflation at	3.50%	3.50%	3.00%
Cost-of-Living Adjustments	None	None	None

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The target allocation for each major asset class is summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities:		
Large cap domestic	32%	5.81%
Small cap domestic	15%	5.92%
Developed international	15%	6.21%
Emerging markets	5%	7.18%
Master limited partnership	5%	7.61%
Real Estate	5%	4.46%
Fixed income	23%	1.61%
Cash	0%	0%
Total	100.0%	5.01%

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2018 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

4. Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 8/31/17	\$ 229,836	\$ 187,113	\$ 42,723
Changes for the year:			
Service Cost	2,836	-	2,836
Interest (on the Total Pension Liab.)	17,629	-	17,629
Change in benefit terms	5,030	-	5,030
Difference between expected and actual experience	(160)	-	(160)
Contributions – members	-	7,296	(7,296)
Contributions – state	-	2,366	(2,366)
Net investment income	-	20,139	(20,139)
Benefit payments, including refunds of emp. contributions	(10,395)	(10,395)	-
Administrative expense	-	(281)	281
Other changes	-	-	-
Net changes	14,940	19,125	(4,185)
Balance at 8/31/18	\$ 244,776	\$ 206,238	\$ 38,538

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
\$ 76,586	\$ 38,538	\$ 12,875

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TESRS financial report. That report may be obtained on the internet at www.tesrs.com.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2018, the City recognized pension expense of \$12,217.

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
Difference between expected and actual economic experience	\$ -	\$ (101)
Difference between projected and investment earnings	-	(2,130)
Change in actuarial assumptions	144	-
Changes in pension proportion	4,290	-
Total	\$ 4,434	\$ (2,231)

Other amounts reported as deferred outflows related to the TESRS pension will be recognized in pension expense as follows:

Year ended August 31:	
2019	\$ 2,765
2020	(1,100)
2021	(1,751)
2022	(873)
2023	283
Thereafter	2,879
	\$ 2,203

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

E. Restatement

The City has restated beginning fund balance/net position within governmental activities, business-type activities, the general fund, as well as the water, wastewater, and electric funds due to the implementation of GASB No. 75 and corrections of accounting errors as listed below. The restatement of beginning net position/fund balance is as follows:

	<u>Governmental Activities</u>	<u>General Fund</u>		
Prior year ending net position/ fund balance as reported	\$ 1,162,842	\$ 907,121		
Corrections to prior year:				
To correct reporting of franchise tax receivables	(26,917)	(26,917)		
Impact of implementation of GASB No. 75	(51,592)	-		
Correction to depreciation on capital assets	(58,729)	-		
Restated beginning net position/ fund balance	<u><u>\$ 1,025,604</u></u>	<u><u>\$ 880,204</u></u>		
	<u>Business-Type Activities</u>	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>
Prior year ending net position as reported	\$ 7,874,788	\$ 4,418,022	\$ 2,464,782	\$ 942,162
Corrections to prior year:				
Impact of implementation of GASB No. 75	(23,593)	(9,763)	-	(13,830)
Correction to depreciation on capital assets	(14,632)	-	(14,632)	-
Restated beginning net position	<u><u>\$ 7,836,563</u></u>	<u><u>\$ 4,408,259</u></u>	<u><u>\$ 2,450,150</u></u>	<u><u>\$ 928,332</u></u>

F. Subsequent Events

In 2019, the City issued a Tax and Utility System Certificates of Obligation, Series 2019 in the amount of \$1,755,000 with an interest rate of 3% to 4% and maturity date of August 15, 2038.

There were no other material subsequent events through May 11, 2019, the date the financial statements were issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Farmersville, Texas

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

For the Year Ended September 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property tax	\$ 783,442	\$ 888,000	\$ 701,635	\$ (186,365)
Sales tax	588,515	458,464	454,406	(4,058)
Franchise and local taxes	156,820	145,139	142,403	(2,736)
License and permits	45,100	45,888	36,915	(8,973)
Charges for services	129,497	134,706	153,089	18,383
Fines and forfeitures	150,000	150,000	155,610	5,610
Intergovernmental	81,560	209,718	168,664	(41,054)
Investment income	4,500	15,000	17,054	2,054
Other revenues	71,047	132,932	212,770	79,838
Total Revenues	2,010,481	2,179,847	2,042,546	(137,301)
Expenditures				
Current:				
Mayor and city council	14,840	10,840	8,638	2,202
Administration	660,129	760,443	823,945	(63,502) *
Library and civic center	213,558	199,898	290,262	(90,364) *
Municipal court	200,963	199,495	198,391	1,104
Police	1,124,252	1,084,858	1,120,917	(36,059) *
Fire and EMS	333,632	419,804	409,896	9,908
Public works	671,860	774,383	744,218	30,165
Debt Service:				
Principal	161,736	162,067	165,597	(3,530) *
Interest and fiscal charges	5,335	6,768	12,059	(5,291) *
Total Expenditures	3,386,305	3,618,556	3,773,923	(155,367)
Revenues Over (Under)				
Expenditures	(1,375,824)	(1,438,709)	(1,731,377)	(292,668)
Other Financing Sources (Uses)				
Transfers in	1,424,286	1,481,286	1,424,286	(57,000)
Transfers (out)	(185,340)	(186,881)	-	186,881
Proceeds from debt issuance	-	-	45,615	45,615
Total Other				
Financing Sources (Uses)	1,238,946	1,294,405	1,469,901	175,496
Net Change in Fund Balance	\$ (136,878)	\$ (144,304)	(261,476)	\$ (117,172)
Beginning fund balance			880,204	
Ending Fund Balance			\$ 618,728	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Expenditures exceeded appropriations at legal level of control.

City of Farmersville, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM

Years Ended:

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Total pension liability				¹
Service cost	\$ 241,395	\$ 231,232	\$ 207,028	\$ 157,726
Interest	356,264	335,857	326,753	313,135
Differences between expected and actual experience	40,315	(60,555)	(22,859)	(66,943)
Changes of assumptions	-	-	41,648	-
Benefit payments, including refunds of participant contributions	(192,468)	(226,121)	(287,705)	(180,348)
Net change in total pension liability	<u>445,506</u>	<u>280,413</u>	<u>264,865</u>	<u>223,570</u>
Total pension liability - beginning	<u>\$ 5,253,518</u>	<u>\$ 4,973,105</u>	<u>\$ 4,708,240</u>	<u>\$ 4,484,670</u>
Total pension liability - ending (a)	<u>\$ 5,699,024</u>	<u>\$ 5,253,518</u>	<u>\$ 4,973,105</u>	<u>\$ 4,708,240</u>
Plan fiduciary net position				
Contributions - employer	\$ 177,306	\$ 163,202	\$ 165,151	\$ 146,026
Contributions - members	101,087	96,588	89,856	81,766
Net investment income	641,460	291,046	6,399	232,214
Benefit payments, including refunds of participant contributions	(192,468)	(226,121)	(287,705)	(180,348)
Administrative expenses	(3,324)	(3,287)	(3,897)	(2,424)
Other	(168)	(177)	(194)	(199)
Net change in plan fiduciary net position	<u>723,893</u>	<u>321,251</u>	<u>(30,390)</u>	<u>277,035</u>
Plan fiduciary net position - beginning	<u>4,627,233</u>	<u>4,305,982</u>	<u>4,336,372</u>	<u>4,059,337</u>
Plan fiduciary net position - ending (b)	<u>\$ 5,351,126</u>	<u>\$ 4,627,233</u>	<u>\$ 4,305,982</u>	<u>\$ 4,336,372</u>
Fund's net pension liability - ending (a) - (b)	<u>\$ 347,898</u>	<u>\$ 626,285</u>	<u>\$ 667,123</u>	<u>\$ 371,868</u>
Plan fiduciary net position as a percentage of the total pension liability	93.90%	88.08%	86.59%	92.10%
Covered payroll	\$ 2,021,738	\$ 1,931,763	\$ 1,797,114	\$ 1,635,328
Fund's net position as a percentage of payroll	17.21%	32.42%	37.12%	22.74%

Notes to schedule:

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

City of Farmersville, Texas
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
TEXAS MUNICIPAL RETIREMENT SYSTEM

Fiscal Years Ended:

	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
Actuarially determined employer contributions	\$ 179,231	\$ 173,496	\$ 170,502	\$ 159,524
Contributions in relation to the actuarially determined contribution	\$ 179,231	\$ 173,496	\$ 170,502	\$ 159,524
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Annual payroll	\$ 2,088,834	\$ 1,997,465	\$ 1,977,366	\$ 1,749,217
Employer contributions as a percentage of payroll	8.58%	8.69%	8.62%	9.12%

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

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

City of Farmersville, Texas

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM SUPPLEMENTAL DEATH BENEFITS PLAN

Years Ended:

	12/31/2017 ¹
Total OPEB liability	
Service cost	\$ 4,852
Interest	2,949
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	6,409
Benefit payments, including refunds of participant contributions	(809)
Net change in total OPEB liability	13,401
Total OPEB liability - beginning	\$ 75,987
Total OPEB liability - ending	\$ 89,388 ²
 Covered payroll	 \$ 2,021,738
City's total OPEB liability as a percentage of covered payroll	4.42%

Notes to schedule:

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

² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

City of Farmersville, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

Years Ended:

	8/31/2018	8/31/2017	8/31/2016	8/31/2015 ¹
Total pension liability				
Service cost	\$ 2,836	\$ 3,266	\$ 4,338	\$ 4,388
Interest	17,629	19,410	22,789	21,939
Changes in benefit terms	5,030	-	1,848	-
Differences between expected and actual experience	(160)	-	166	-
Changes of assumptions	-	-	2,278	-
Benefit payments, including refunds of participant contributions	(10,395)	(10,316)	(12,037)	(11,652)
Net change in total pension liability	14,940	12,360	19,382	14,675
Total pension liability - beginning	\$ 229,836	\$ 252,339	\$ 295,734	\$ 284,524 ²
Total pension liability - ending (a)	\$ 244,776	\$ 264,699 ⁴	\$ 315,116	\$ 299,199
Plan fiduciary net position				
Contributions - employer	\$ 2,366	\$ 3,247	\$ 4,055	\$ 4,241
Contributions - members	7,296	10,275	8,867	9,105
Net investment income	20,139	20,042	12,689	(8,529)
Benefit payments, including refunds of participant contributions	(10,395)	(10,316)	(12,037)	(11,652)
Administrative expenses	(281)	(378)	(427)	(559)
Net change in plan fiduciary net position	19,125	22,870	13,147	(7,394)
Plan fiduciary net position - beginning	187,113	192,626	227,401	237,459
Plan fiduciary net position - ending (b)	\$ 206,238	\$ 215,496	\$ 240,548	\$ 230,065
Fund's net pension liability - ending (a) - (b)	\$ 38,538	\$ 49,203	\$ 74,568	\$ 69,134
Plan fiduciary net position as a percentage of the total pension liability	84.26%	81.41%	76.34%	76.89%
Number of active members	24	23	28	29 ³
Systems' net pension liability per active member	1,606	\$ 2,139	\$ 2,663	\$ 2,384

Notes to schedule:

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

2) Determined from the end of year total pension liability using the roll back procedure allowed for the initial year of implementing GASB 67.

3) There is no compensation for active members, so number of active members is used instead.

4) The System's net pension liability was measured as of August 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2018 and rolled forward to August 31, 2018

City of Farmersville, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

Fiscal Years Ended:

	9/30/2018	9/30/2017	9/30/2016	9/30/2015 ¹
Actuarially determined employer contributions	\$ 11,609	\$ 11,996	\$ 10,692	\$ 6,469
Contributions in relation to the actuarially determined contribution	\$ 11,609	\$ 11,996	\$ 10,692	\$ 6,469
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Number of active members	23	23	28	29
Employer contributions per member	505	522	382	223

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

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes Contribution rates are determined by board rule and become effective August 31.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	5 Year smoothed market; 20% soft corridor
Inflation	3.0%
Salary Increases	n/a
Investment Rate of Return	7.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits.
Mortality	RP2000 Combined Healthy Lives Mortality for males and females projected to 2024 by scale AA.

Other Information:

Notes There were no benefit changes during the year.

NONMAJOR GOVERNMENTAL FUNDS

LIBRARY FUND

This fund accounts for funds to be used on the City's library.

MUNICIPAL COURT TECHNOLOGY FUND

This fund accounts for funds that are legally restricted for use on municipal court technology.

MUNICIPAL COURT SECURITY FUND

This fund accounts for funds that are used for Law Enforcement Officer Safety Equipment grants to be used for Law Enforcement Officer Safety Equipment.

CHAPPARAL GRANT FUND

This fund accounts for funds that are used for the development and maintenance of the Chapparal Trail.

SAFE ROUTES SCHOOL

This fund accounts for funds that are used for school routes and crossing guards.

LEOSE

The Law Enforcement Officer Standards and Education is used to account for funds used to provide continuing education for law enforcement officers.

CHILD SAFETY

The purpose of this fund is to provide funding for public, parochial, and private school crossing guard programs inside the City.

SPECIAL PROJECTS

This fund accounts for funds to be used for special projects.

TIRZ

This fund accounts for funds to be used for planned development of a certain contiguous geographic area.

JW SPAIN GRANT

This fund accounts for the funds to be used to complete the master plan study for the JW Spain Athletic Complex.

RADIO GRANTS

This fund accounts for the funds to be used radio equipment.

SIDEWALK GRANT

This fund accounts for the funds to be used to complete the sidewalk project.

SOUTH RIKE STREET GRANT

This fund accounts for the funds to be used to complete the street project.

City of Farmersville, Texas

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2018

	Library Fund	Municipal Court Technology	Municipal Court Security	Chapparral Grant Fund	Safe Routes School Fund	LEOSE
<u>Assets</u>						
Cash and cash equivalents	\$ 2,464	\$ -	\$ 15,133	\$ -	\$ 61,548	\$ 1,874
Due from other funds	-	-	-	-	-	-
Total Assets	\$ 2,464	\$ -	\$ 15,133	\$ -	\$ 61,548	\$ 1,874
<u>Liabilities</u>						
Accounts payable	\$ -	\$ 131	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	2,666	-	55,742	-	-
Total Liabilities	-	2,797	-	55,742	-	-
<u>Fund Balances</u>						
Restricted for:						
Capital improvements	-	-	-	-	-	-
Library	2,464	-	-	-	-	-
Municipal court	-	-	15,133	-	-	-
Public safety	-	-	-	-	61,548	1,874
Special projects	-	-	-	-	-	-
Unassigned	-	(2,797)	-	(55,742)	-	-
Total Fund Balances	2,464	(2,797)	15,133	(55,742)	61,548	1,874
Total Liabilities						
and Fund Balances	\$ 2,464	\$ -	\$ 15,133	\$ -	\$ 61,548	\$ 1,874

<u>Child Safety</u>	<u>Special Projects</u>	<u>TIRZ</u>	<u>JW Spain Grant</u>	<u>Radio Grants</u>	<u>Sidewalk Grant</u>	<u>South Rike Street Grant</u>	<u>Total Nonmajor Governmental</u>
\$ 22,187	\$ -	\$ 230,843	\$ 47,880	\$ 6,083	\$ -	\$ -	\$ 388,012
-	130,333	191,931	-	-	-	-	322,264
<u>\$ 22,187</u>	<u>\$ 130,333</u>	<u>\$ 422,774</u>	<u>\$ 47,880</u>	<u>\$ 6,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 710,276</u>
\$ 169	\$ -	\$ -	\$ -	\$ -	\$ 12,820	\$ -	\$ 13,120
-	-	-	-	-	38,421	803	97,632
<u>169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,241</u>	<u>803</u>	<u>110,752</u>
-	-	422,774	-	-	-	-	422,774
-	-	-	-	-	-	-	2,464
-	-	-	-	-	-	-	15,133
22,018	-	-	-	-	-	-	85,440
-	130,333	-	47,880	6,083	-	-	184,296
-	-	-	-	-	(51,241)	(803)	(110,583)
<u>22,018</u>	<u>130,333</u>	<u>422,774</u>	<u>47,880</u>	<u>6,083</u>	<u>(51,241)</u>	<u>(803)</u>	<u>599,524</u>
<u>\$ 22,187</u>	<u>\$ 130,333</u>	<u>\$ 422,774</u>	<u>\$ 47,880</u>	<u>\$ 6,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 710,276</u>

City of Farmersville, Texas

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS For the Year Ended September 30, 2018

	<u>Library Fund</u>	<u>Municipal Court Technology</u>	<u>Municipal Court Security</u>	<u>Chapparral Grant Fund</u>	<u>Safe Routes School Fund</u>	<u>LEOSE</u>
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	4,804	3,603	-	-	-
Intergovernmental	-	-	-	-	-	1,202
Donations and contributions	244	-	-	-	-	-
Grant income	-	-	-	-	-	-
Investment income	-	-	-	-	-	-
Total Revenues	<u>244</u>	<u>4,804</u>	<u>3,603</u>	<u>-</u>	<u>-</u>	<u>1,202</u>
Expenditures						
Library	356	-	-	-	-	-
Municipal court	-	6,635	-	-	-	-
Public works	-	-	-	-	-	-
Debt issuance costs	-	-	-	-	-	-
Total Expenditures	<u>356</u>	<u>6,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues Over (Under) Expenditures	<u>(112)</u>	<u>(1,831)</u>	<u>3,603</u>	<u>-</u>	<u>-</u>	<u>1,202</u>
Other Financing Sources (Uses)						
Transfers (out)	-	-	-	-	-	-
Proceeds from debt issuance	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(112)</u>	<u>(1,831)</u>	<u>3,603</u>	<u>-</u>	<u>-</u>	<u>1,202</u>
Beginning fund balances	2,576	(966)	11,530	(55,742)	61,548	672
Ending Fund Balances	<u>\$ 2,464</u>	<u>\$ (2,797)</u>	<u>\$ 15,133</u>	<u>\$ (55,742)</u>	<u>\$ 61,548</u>	<u>\$ 1,874</u>

<u>Child Safety</u>	<u>Special Projects</u>	<u>TIRZ</u>	<u>JW Spain Grant</u>	<u>Radio Grants</u>	<u>Sidewalk Grant</u>	<u>South Rike Street Grant</u>	<u>Total Nonmajor Governmental</u>
\$ -	\$ -	\$ 211,217	\$ -	\$ -	\$ -	\$ -	\$ 211,217
4,622	-	-	-	-	-	-	13,029
-	-	-	-	-	-	-	1,202
-	-	-	-	-	-	-	244
-	-	-	-	-	129,124	15,125	144,249
-	-	3,928	-	-	-	-	3,928
<u>4,622</u>	<u>-</u>	<u>215,145</u>	<u>-</u>	<u>-</u>	<u>129,124</u>	<u>15,125</u>	<u>373,869</u>
-	-	-	-	-	-	-	356
6,590	-	-	-	-	-	-	13,225
-	-	-	-	114,255	180,365	15,928	310,548
-	-	-	-	9,662	-	-	9,662
<u>6,590</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,917</u>	<u>180,365</u>	<u>15,928</u>	<u>333,791</u>
<u>(1,968)</u>	<u>-</u>	<u>215,145</u>	<u>-</u>	<u>(123,917)</u>	<u>(51,241)</u>	<u>(803)</u>	<u>40,078</u>
-	-	(29,013)	-	-	-	-	(29,013)
-	-	-	-	130,000	-	-	130,000
<u>-</u>	<u>-</u>	<u>(29,013)</u>	<u>-</u>	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>100,987</u>
(1,968)	-	186,132	-	6,083	(51,241)	(803)	141,065
23,986	130,333	236,642	47,880	-	-	-	458,459
<u>\$ 22,018</u>	<u>\$ 130,333</u>	<u>\$ 422,774</u>	<u>47,880</u>	<u>6,083</u>	<u>(51,241)</u>	<u>(803)</u>	<u>\$ 599,524</u>

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