

CITY OF SAN AUGUSTINE, TEXAS
ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED JUNE 30, 2018

CITY OF SAN AUGUSTINE, TEXAS

Annual Financial Report for the
Year Ended June 30, 2018

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TILLER AND COMPANY

A PROFESSIONAL CORPORATION OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Mayor and City Council
City of San Augustine, Texas

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes determining that 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 Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of San Augustine, Texas as of June 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 Notes A and G, to the financial statements, the City adopted provisions of Government Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of June 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, the budgetary information, Schedules of Changes in Net Pension Liability and Net OPEB Liability and Related Ratios, and the Schedule of Pension Contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The accompanying Schedule of Departmental Net Operating Income, Schedule of Operating Expenses – Proprietary Fund and Schedule of Current Expenditures – General Fund listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

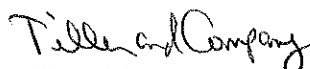
The schedules referred to above are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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, these schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Other Data listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.

Respectfully submitted,



Tiller and Company
A Professional Corporation of
Certified Public Accountants

San Augustine, Texas
December 13, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of San Augustine, Texas' annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total combined assets and deferred outflows exceeded its liabilities and deferred inflows (net position) by \$5,711,774 at June 30, 2018. Included in this amount is \$704,508 in unrestricted net position.
- During the year, the City's governmental activities expenses were \$42,891 more than the \$1,844,060 generated in taxes and other revenues for governmental activities.
- The total cost of the City's governmental activities, excluding grant expenses, decreased by \$204,814 from last year.
- The City transferred \$411,000 from the System Fund (water, sewer and electricity) to the General Fund as payments in lieu of taxes.
- The general fund reported a fund balance this year of \$137,282, a decrease of \$42,450 from last year.

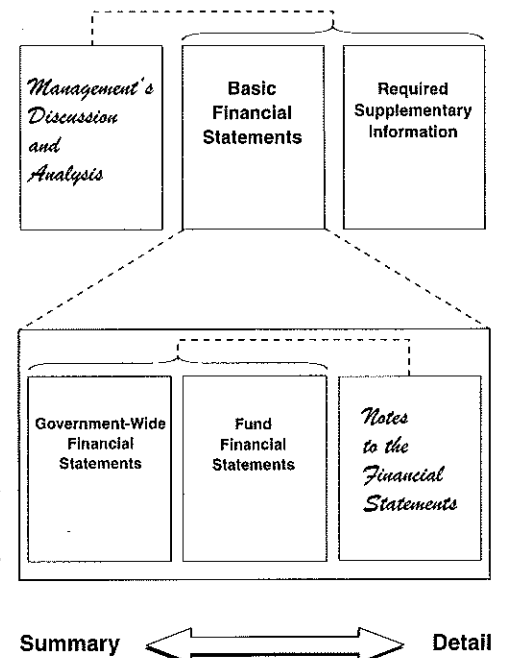
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1, Required Components of the City's Annual Financial Report



Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets and deferred inflows and liabilities and deferred outflows—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as public safety, public works, parks and recreation and general administration. Property taxes, sales taxes, garbage fees, and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary fund* – The System Fund that accounts for revenues and expenses related to services for electricity and water and sewer.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The City's combined net position was \$8,711,774 at June 30, 2018. (See Table A-1).

Table A-1
City of San Augustine, Texas' Net Position
In thousands of dollars

	June 30, 2018			June 30, 2017		
	Governmental	Business-type	Total Primary	Governmental	Business-type	Total Primary
	Activities	Activities	Government	Activities	Activities	Government
Current assets:						
Cash	\$ 191	\$ 260	\$ 451	\$ 270	\$ 463	\$ 733
Property taxes receivable	222	-	222	202	-	202
Accounts receivable	41	939	980	41	464	505
Internal balances	36	(36)	-	35	(35)	-
Prepaid expense	-	-	-	9	6	15
Total current assets:	490	1,163	1,653	557	898	1,455
Noncurrent assets:						
Capital assets	5,187	12,596	17,783	5,142	11,592	16,734
Less accumulated depreciation	(3,589)	(7,889)	(11,478)	(3,482)	(7,652)	(11,134)
Total Capital assets	1,598	4,707	6,305			
Net pension asset	34	24	58			
Total noncurrent assets	1,632	4,731	6,363	1,660	3,940	5,600
Total Assets	2,122	5,894	8,016	2,217	4,838	7,055
Deferred Outflow of Resources	126	91	217	175	138	313
Current liabilities:						
Accounts payable	13	59	72	73	42	115
Refundable deposits	-	217	217	-	215	215
Current portion of long-term debt	120	-	120	115	-	115
Total current liabilities	133	276	409	188	257	445
Long-term liabilities:						
Long-term debt	1,485	113	1,598	1,892	343	2,235
Total Liabilities	1,618	389	2,007	2,080	600	2,680
Deferred Inflow of Resources	297	215	512	52	41	93
Net Position:						
Invested in capital assets	183	4,707	4,890	125	3,940	4,065
Restricted for debt service	101	-	101	59	-	59
Restricted for capital projects	16	-	16	43	-	43
Unrestricted	31	674	705	33	395	428
Total Net Position	\$ 331	\$ 5,381	\$ 5,712	\$ 260	\$ 4,335	\$ 4,595

The City has \$704,508 in unrestricted net position available to fund the programs of the City next year.

Changes in net assets. The City's total revenues were \$6,521,188. A significant portion, 68% of the City's revenue comes from charges for services. (See Figure A-3.) 14% comes from taxes, 15% comes from grants and 3% comes from other revenues. The total cost of all programs and services was \$5,327,708; 68% of these costs are for water and sewer and electrical services.

Government Wide Activities

- Property tax rate decreased to \$0.641454 from \$0.653401 per \$100 valuation.

Figure A-3 City
Sources of Revenue for Fiscal Year 2018

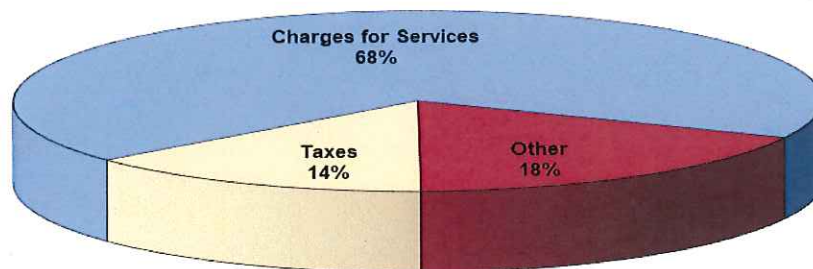


Table A-2
Changes in City of San Augustine, Texas' Net Assets
(In Thousands Dollars)

	June 30, 2018			June 30, 2017		
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental Activities	Business-type Activities	Total Primary Government
Program Revenues:						
Charges for Services	\$ 206	\$ 4,214	\$ 4,420	\$ 202	\$ 4,361	\$ 4,563
Capital Grants and Contributions	30	970	1,000	221	139	360
General Revenues:						
Property Taxes	399	-	399	383	-	383
Sales and Other Taxes	507	-	507	468	-	468
Other	147	48	195	101	50	151
Totals	1,289	5,232	6,521	1,395	4,550	5,925
Transfers	555	(555)	-	671	(671)	-
Total Revenues	1,844	4,677	6,521	2,046	3,879	5,925
Business-Type Activities Expenses:						
Water and Sewer	-	1,353	1,353	-	1,228	1,228
Electric	-	2,245	2,245	-	2,370	2,370
Governmental-Type Activities Expenses:						
General Government	395	-	395	542	-	542
Public Safety	733	-	733	771	-	771
Public Works	339	-	339	320	-	320
Parks, Recreation and Culture	251	-	251	288	-	288
Interest and Fiscal Agent Fees	12	-	12	14	-	14
Total Expenses	1,730	3,598	5,328	1,935	3,598	5,533
Increase (Decrease) in Net Position	\$ 114	\$ 1,079	\$ 1,193	\$ 111	\$ 281	\$ 392

Table A-3 presents the cost of each of the City's largest activities as well as each activities' net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded through charges for services as well as tax dollars.

- The cost of all *governmental* activities this year was \$1.7 million.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$399 thousand.
- Some of the governmental activities which were paid by those who directly benefited from the programs was \$206 thousand.
- Grants and contributions amounted to \$1 million.

Table A-3
Net Cost of Selected City Activities
(in thousands of dollars)

	Total Cost of Services			Net Cost of Services		
	<u>2018</u>	<u>2017</u>	<u>% Change</u>	<u>2018</u>	<u>2017</u>	<u>% Change</u>
General government	\$395	\$542	(37)%	\$395	\$385	3%
Public safety	733	771	(5)%	719	705	3%
Public works	339	320	9%	121	124	2%
Parks, recreation and culture	251	288	(13)%	247	283	(13)%

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types decreased \$101,099 due primarily to a decrease in proceeds from grants as compared with the prior year. Revenues from business-type activities revenues increased by \$683,113, due primarily to proceeds from grants.

For 2018, actual revenues in excess of expenditures before transfers were above the original budgeted amounts by \$42,551.

General Fund Budgetary Highlights

There were no changes from the originally adopted budget and the final budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had invested \$17,783,497 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.)

Table A-4
City's Capital Assets
(In thousands of dollars)

	<u>2018</u>	<u>2017</u>	Total Percentage Change <u>2018-2017</u>
Land	\$466	\$466	-
Buildings and improvements	13,190	12,944	2%
Vehicles and equipment	3,255	3,185	2%
Construction in progress	872	139	527%
Totals at historical cost	<u>17,783</u>	<u>16,503</u>	<u>8%</u>
Total accumulated depreciation	11,478	10,789	6%
Net capital assets	<u>\$6,305</u>	<u>\$5,714</u>	<u>10%</u>

Long Term Debt

At year-end the City had \$1,661 thousand in certificates of obligation, compensated absences payable, pension and OPEB liabilities and notes outstanding as shown in Table A-5.

Table A-5
City's Long-Term Debt
(In thousands of dollars)

	<u>2018</u>	<u>2017</u>	Total Percentage Change <u>2018-2017</u>
Compensated Absences	\$ 214	\$ 211	1%
Certificates of Obligation	1,310	1,375	(5)%
Bonds	105	155	(32)%
Notes Payable	-	-	-
Net Pension and OPEB Liability	31	609	(95)%
Total Long-Term Debt	<u>\$1,660</u>	<u>\$2,350</u>	<u>(29)%</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The budget year 2018 saw a shortfall of approximately \$200,000 because funding from grants expected did not materialize as anticipated. In fact, both the budget in question for this audit and the next one for the year ending June 2019 will both be clouded by a time delay gap in federal funding. Namely the lack of a timely 50% match from the Economic Development Agency on the project at the water plant for the addition of two new 300,000-gallon ground storage tanks and subsequent removal of the old 500,000-gallon tank. City Management had gone into the project expecting reimbursement from the federal government for 100% of the project. However, the funding for the first 50% of the project was on a current grant, but because the second 50% was dependent on a much older grant that was redirected, and because the forensic accounting for redirecting the money was not clear, there were major delays in getting the funds reimbursed. There was great question if the City would even be successful in getting those funds, although ultimately it was accomplished. Unfortunately, the bulk of the reimbursement arrived in the next sequential budget year, thus in 2018 there was more than expected out of pocket while in 2019 there will be a surplus being paid back into the City after being funded on the old grant. For clarity, the old grant referred to was originally obtained for infrastructure to provide City services for the Pinto Pony Cookie Factory, an enterprise that failed to launch. As of the drafting of this commentary the last \$96K is still tied up at the federal level due to a government shutdown, but we do expect those funds to eventually be reimbursed, and the new tanks will have been paid in full.

One helpful factor was brought about some time before 2018 by the City's successful renegotiation of power rates with the City's electric power provider. This allowed the City to experience approximately \$190,000 in savings which helped to offset the afore mentioned funding shortage. Conversely, the winter months of 2018 were costly in terms of water distribution failures due to an extremely cold period of freezing temperatures, but all in all the outcome was favorable in 2018

Outside of savings on electricity and grant issues, other economic factors in the City were flat.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Administrative Office.

BASIC FINANCIAL STATEMENTS

CITY OF SAN AUGUSTINE, TEXAS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 190,865	\$ 259,649	\$ 450,514
Receivables (Net of Allowance for Uncollectible, Where Applicable):			
Property Taxes	221,683	-	221,683
Accounts	41,208	546,345	587,553
Grant Receivables		393,138	393,138
Internal Balances	36,058	(36,058)	-
Capital Assets:			
Land	453,753	12,522	466,275
Buildings and Improvements	1,017,782	-	1,017,782
Furniture & Equipment	126,542	255,705	382,247
Distribution System	-	493,681	493,681
Wells and Tanks	-	487,723	487,723
Lake and Treatment Plant	-	476,202	476,202
Sewer and Treatment Plant		2,109,640	2,109,640
Construction in Progress	-	871,500	871,500
	2,087,891	5,870,047	7,957,938
Other Non-current Assets			
Net pension asset	33,657	24,373	58,030
	2,121,548	5,894,420	8,015,968
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to OPEB	3,848	3,023	6,871
Deferred Outflow Related to TMRS	121,771	88,179	209,950
	125,619	91,202	216,821
LIABILITIES			
Accounts Payable	\$ 13,633	\$ 58,882	\$ 72,515
Refundable Deposits	-	216,909	216,909
Long-Term Liabilities:			
Portion Due in One Year:			
Bonds	50,000	-	50,000
Certificates of Obligation	70,000	-	70,000
Portion Due in More Than One Year:			
Compensated Absences	140,103	74,307	214,410
Bonds	55,000	-	55,000
Certificates of Obligation	1,240,000	-	1,240,000
Net OPEB Liability	50,046	39,321	89,367
Total Liabilities	1,618,782	389,419	2,008,201
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to TMRS	297,432	215,382	512,814
	297,432	215,382	512,814
NET POSITION			
Net investment in capital assets	183,077	4,706,973	4,890,050
Restricted For:			
Capital Projects	16,009	-	16,009
Debt Service	101,207	-	101,207
Unrestricted	30,660	673,848	704,508
Total Net Position	\$ 330,953	\$ 5,380,821	\$ 5,711,774

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENT ACTIVITIES:							
General government	\$ 394,979		\$		\$ (394,979)	\$	\$ (394,979)
Public safety	733,085		13,982		(719,103)		(719,103)
Public works	339,009	\$ 202,376	16,000		(120,633)		(120,633)
Parks, recreation and culture	250,861	3,462			(247,399)		(247,399)
Interest and fiscal agent fees	11,902				(11,902)		(11,902)
TOTAL GOVERNMENTAL ACTIVITIES	1,729,836	205,838	29,982	29,982	(1,494,016)	-	(1,494,016)
BUSINESS-TYPE ACTIVITIES:							
Water and sewer	1,352,715	1,570,941	969,616			1,187,842	1,187,842
Electric	2,245,157	2,643,370				398,213	398,213
TOTAL BUSINESS-TYPE ACTIVITIES	3,597,872	4,214,311	969,616	969,616	-	1,586,055	1,586,055
TOTAL PRIMARY GOVERNMENT	\$ 5,327,708	\$ 4,420,149	\$ -	\$ 999,598	(1,494,016)	1,586,055	92,039
General Revenues:							
Property Taxes, Levied for General Purposes					399,041	-	399,041
Sales and Other Taxes					506,502	-	506,502
Miscellaneous					147,285	48,613	195,898
Transfers, net					555,412	(555,412)	-
Total General Revenues and Transfers					1,608,240	(506,799)	1,101,441
Change in Net Assets					114,224	1,079,256	1,193,480
Net Position - Beginning					259,620	4,335,265	4,594,885
Prior Period Adjustment - OPEB					(42,891)	(33,700)	(76,591)
Net Position - Beginning, as adjusted					216,729	4,301,565	4,518,294
Net Position - Ending					330,953	5,380,821	5,711,774

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL
ASSETS				
Cash	\$ 73,649	\$ 101,207	\$ 16,009	\$ 190,865
Receivables (Net of Allowance for Uncollectibles, Where Applicable):				
Property Taxes	221,683	-	-	221,683
Accounts	41,208	-	-	41,208
Due from Other Funds	36,058	-	-	36,058
Total Assets	\$ 372,598	\$ 101,207	\$ 16,009	\$ 489,814
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts Payable	\$ 13,633	\$ -	\$ -	\$ 13,633
Total Liabilities	13,633	-	-	13,633
Deferred Inflow of Resources				
Unavailable Revenue - Taxes	221,683	-	-	221,683
Fund Balance:				
Fund Balance:				
Nonspendable				
Debt Service	-	101,207	-	101,207
Capital Projects	-	-	16,009	16,009
Unassigned	137,282	-	-	137,282
Total Fund Balance	137,282	101,207	16,009	254,498
Total Liabilities and Fund Balance	\$ 372,598	\$ 101,207	\$ 16,009	\$ 489,814

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total fund balances - governmental funds balance sheet	\$	254,498
Amounts reported for governmental activities in the statement of net position ("SNP") are different because:		
Capital assets used in governmental activities are not reported in the funds.		1,598,077
Certain pension and OPEB contributions and changes in pension plan net position are reported as deferred outflows of resources in the statement of net position, but are reported as expenditures in the governmental funds		125,619
Net pension and OPEB liability is not due and payable in the current period and is not reported in the funds		(16,389)
Pension and OPEB related deferrals		(297,432)
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		221,683
Payables for long-term debt are not reported in the funds.		<u>(1,555,103)</u>
Net position of governmental activities - statement of net position	\$	<u><u>330,953</u></u>

CITY OF SAN AUGUSTINE, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Property Taxes	\$ 379,454	\$ -	\$ -	\$ 379,454
Garbage Collection	202,376	-	-	202,376
Other Local Taxes and Permits	506,502	-	-	506,502
Fines and Parking	59,184	-	-	59,184
Interest Income	37	-	-	37
Miscellaneous	91,526	-	-	91,526
Donations and Grants	29,982	-	-	29,982
TOTAL REVENUES	<u>1,269,061</u>	<u>-</u>	<u>-</u>	<u>1,269,061</u>
EXPENDITURES:				
City Council	29,976	-	-	29,976
Administrative Department	231,885	-	-	231,885
Street Department	182,091	-	-	182,091
Sanitation Department	156,114	-	-	156,114
Fire Department	111,493	-	-	111,493
Police Department	550,511	-	-	550,511
Corporation Court	88,142	-	-	88,142
Municipal Buildings	11,244	-	-	11,244
Library Department	141,358	-	-	141,358
Multi-Purpose Center	6,072	-	-	6,072
Mission Delores	36,461	-	-	36,461
Main Street Program	51,298	-	-	51,298
Tourism Center	10,049	-	-	10,049
Miscellaneous	10,373	-	219	10,592
Capital Outlay	107,140	-	-	107,140
Debt Service:				
Principal Retirement	-	115,000	-	115,000
Interest and Fiscal Charges	-	11,902	-	11,902
TOTAL EXPENDITURES	<u>1,724,207</u>	<u>126,902</u>	<u>219</u>	<u>1,851,328</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(455,146)</u>	<u>(126,902)</u>	<u>(219)</u>	<u>(582,267)</u>
OTHER FINANCING SOURCES (USES):				
Payments in Lieu of Taxes	411,000	-	-	411,000
Transfers (Out)	-	-	(25,917)	(25,917)
Transfers In	1,696	168,633	-	170,329
TOTAL OTHER FINANCING SOURCES (USES)	<u>412,696</u>	<u>168,633</u>	<u>(25,917)</u>	<u>555,412</u>
Change in Fund Balance	(42,450)	41,731	(26,136)	(26,855)
Fund Balance at Beginning of Year	179,732	59,476	42,145	281,353
FUND BALANCE AT END OF YEAR	<u>\$ 137,282</u>	<u>\$ 101,207</u>	<u>\$ 16,009</u>	<u>\$ 254,498</u>

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, 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 JUNE 30, 2018

Net changes in fund balance - total governmental funds	\$	(26,855)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:		
The depreciation of capital assets used in governmental activities is not reported in the funds.		(107,261)
Purchases of capital assets is not reported as an expense in the SOA.		45,284
Contributions to the pension plan in the current fiscal year are not included in the SOA		73,094
Repayment of debt principal is an expenditure in the funds but is not an expense in the SOA		115,000
Certain property tax revenues are deferred in the funds.		19,587
Increase in compensated absences long term liability		<u>(4,625)</u>
Change in net assets of governmental activities - statement of activities	\$	<u><u>114,224</u></u>

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2018

		<u>BUSINESS-TYPE ACTIVITIES - SYSTEM FUND</u>
		<u>2018</u>
ASSETS:		
Current Assets:		
Cash	\$	259,649
Accounts Receivable (Net of Allowance for Uncollectibles)		546,345
Grant Receivable		393,138
Capital Assets		
Land		12,522
Furniture and Equipment		1,717,404
Distribution System		4,037,798
Wells and Tanks		787,260
Lake and Treatment Plant		1,881,131
Sewer and Treatment Plant		3,288,573
Construction in Progress		871,500
Less Accumulated Depreciation		<u>(7,889,215)</u>
Total Assets		<u>5,906,105</u>
Non-current Assets		
Net pension asset		<u>24,373</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflow Related to OPEB		3,023
Deferred Outflow Related to TMRS		<u>88,179</u>
Total Deferred Outflow of Resources		<u>91,202</u>
 LIABILITIES:		
Current Liabilities:		
Accounts Payable		58,882
Accrued Compensated Absences		74,307
Due to Other Funds		36,058
Refundable Deposits		216,909
Total Current Liabilities		<u>386,156</u>
Non-Current Liabilities:		
Long-Term Liabilities, Less Current Portion:		
Net OPEB Liability		<u>39,321</u>
Total Non-Current Liabilities		<u>39,321</u>
Total Liabilities		<u>425,477</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow Related to TMRS		<u>215,382</u>
Total Deferred Inflow of Resources		<u>215,382</u>
 NET POSITION:		
Net investment in capital assets		4,706,973
Unrestricted		673,848
Total Net Position	\$	<u><u>5,380,821</u></u>

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018

	BUSINESS-TYPE ACTIVITIES - SYSTEM FUND
	2018
OPERATING REVENUES:	
Charges for Services	\$ 4,214,311
Miscellaneous	48,613
TOTAL OPERATING REVENUES	4,262,924
OPERATING EXPENSES:	
Administration	194,681
Water Treatment and Production	560,668
Water Distribution	212,304
Sewer Collection	131,975
Sewer Treatment	184,778
Electric Department	2,076,345
Depreciation	237,121
TOTAL OPERATING EXPENSES	3,597,872
Operating Income	665,052
OTHER FINANCING SOURCES (USES):	
Capital contributions	969,616
Transfers In Lieu of Taxes	(411,000)
Transfers (Out)	(144,412)
TOTAL OTHER FINANCING SOURCES (USES)	414,204
Change in Net Assets	1,079,256
Net Position at Beginning of Year	4,335,265
Prior period adjustment	(33,700)
Net position, beginning of year, as adjusted	4,301,565
NET POSITION AT END OF YEAR	\$ 5,380,821

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018

	BUSINESS-TYPE ACTIVITIES - SYSTEM FUND
	2018
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 4,132,483
Receipts from other items	48,613
Payments to suppliers	(2,906,494)
Payments for wages and benefits	(496,912)
Net Cash Provided by Operating Activities	777,690
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in Lieu of Taxes	(411,000)
Operating transfers - in (out)	(143,460)
Net Cash Used From Noncapital Financing Activities	(554,460)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	576,478
Purchase of capital assets	(1,003,734)
Net Cash Used From Capital and Related Financing Activities	(427,256)
Net Decrease in Cash	(204,026)
Cash at Beginning of the Year	463,675
Cash at End of the Year	\$ 259,649
Adjustments to reconcile operating income to net cash provided by operating activities:	
Net operating income	\$ 665,052
Depreciation expense	237,121
Bad debts	25,000
(Increase)/decrease in receivables	(106,828)
(Increase)/decrease in prepaid expenses	6,160
Increase/(decrease) in payables	16,433
Increase/(decrease) in customer deposits	1,787
Increase/(decrease) in pension liability	(66,175)
Increase/(decrease) in compensated absences	(860)
Net Cash Provided by Operating Activities	\$ 777,690

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of San Augustine, Texas (the City) was incorporated in 1917, under the provisions of the State of Texas. The City operates under a Council-Manager form of government and provides the following services: police, streets, utilities, sanitation, culture-recreation, public improvements, and general administration.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for governmental accounting and financial reporting.

1. THE FINANCIAL REPORTING ENTITY

The City is a Texas Municipal Corporation with a six-member City Council, comprised of the Mayor and five Councilmen, all elected at large. The City, for financial purposes, includes all of the funds relevant to the operations of the City of San Augustine. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of San Augustine.

The financial statements of the City do not include any separately administered organizations. No such organizations exist that are controlled by or are dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board. There are no component units included within the reporting entity.

Because members of the City Council are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations, and have the primary accountability for fiscal matters; the City is not included in any other governmental “reporting entity” as defined by Governmental Accounting Standards Board (“GASB”), Statement No. 14, “The Financial Reporting Entity,” as amended.

The City receives funding from local, state and federal government sources and must comply with requirements of these funding entities.

2. 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 on all non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Separate financial statements are provided for governmental funds and proprietary funds. Major individual government funds are reported as separate columns in the fund financial statements.

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *debt service fund* accounts for and reports financial resources that are restricted, committed or assigned to expenditures for principal and interest. Debt service funds are also used to report resources if legally mandated and resources that are being accumulated for principal and interest maturing in future years.

The government reports the following major proprietary funds:

The *system fund* accounts for the activity that is financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4. USE OF ESTIMATES

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

5. BUDGETS

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and debt service funds. All annual appropriations lapse at fiscal year-end. Special Revenue Funds (grant funds) are budgeted on a project-period basis. The budget is properly amended by the City Council as needed throughout the year.

6. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has items that qualifies for reporting in this category. It is 1) the deferred charge on refunding results from the contributions made to the City's defined benefit pension plan between the measurement date of the net position liabilities from those plans and the end of the City's fiscal year 2) changes in actuarial assumptions related to the pension expense and 3) actual pension plan earnings in excess of the expected amounts included in determining pension expense. No deferred resources affect the governmental funds financial statements in the current year.

The City's statements of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources are reported in the City's statement of net position for differences between expected and actual economic experience attributed to the pension plan. These deferred inflows of resources are attributed to pension expense over a total of five years. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than sixty days after the end of the City's fiscal year) under the modified accrual basis of accounting.

7. CASH

Cash includes cash on hand and amounts in demand and short-term time deposit accounts. Cash deposits are reported at carrying amount which reasonably estimates fair value.

8. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" in the balance sheet. Short-term inter-fund loans are classified as "inter-fund receivables/payables."

9. INTERNAL BALANCES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. 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, as reported in the fund financial statements, are offset by a fund balance reserve in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

10. CAPITAL ASSETS

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated acquisition value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Infrastructure assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are capitalized along with other capital assets.

Interest is not capitalized on capital assets in the business-type fund, since the amount of such capitalized interest is not material to the government-wide financial statements.

11. COMPENSATED ABSENCES

Employees are paid by a prescribed formula for absences due to vacation or sickness. Vacation pay does not accrue past the anniversary date of the employee. Ten days each of sick and vacation days may be earned each year up to a maximum of 120 days of sick leave and sixty days of vacation time.

12. LONG-TERM OBLIGATIONS

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed.

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

13. GOVERNMENTAL FUND BALANCES

In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed – Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance.
- Assigned – Amounts the City intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

14. GOVERNMENT-WIDE AND PROPRIETARY FUND NET POSITION

Net position represents the difference between assets and liabilities in the statement of net position. Government-wide net position is divided into three components:

Invested in capital assets, net of related debt – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted net position – consists of assets that are restricted by the City’s creditors, enabling legislation, by grantors, and by other contributors.

Unrestricted net position – all other net position is reported in this category.

The City uses restricted amounts first when both restricted and unrestricted fund balances are available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

15. INTERFUND TRANSACTIONS

Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other inter-fund transactions except reimbursements are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as transfers.

16. 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 the proprietary fund’s principal ongoing operations. The principal operating revenues of the System Fund are charges to customers for sales or services. The System Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

17. FUND BALANCE POLICY

The City reports fund balance amounts for which provisions of laws, contracts, and grants specify how fund resources can be used in the restricted classification.

When the City incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to restricted balances.

18. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of 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 to 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.

19. OTHER POST-EMPLOYMENT BENEFITS

The Texas Municipal Retirement System (TMRS) Supplemental Death Benefit Fund (SDBF) reports the resources available to pay supplemental death claims for covered participants. Member cities may elect, by ordinance, to provide a Supplemental Death Benefit for their active members, including or not including retirees. The SDBF is a separate trust administered by the TMRS Board of Trustees. The TMRS Act required the Pension Trust Fund to allocate a 5% interest credit to the SDBF each December 31 based on the meal balance in the SDBF during the year. Death benefit payments are payable only from this fund and are not an obligation of, or a claim against, the other funds of TMRS.

20. IMPLEMENTATION OF NEW STANDARDS

In the current fiscal year, the City implemented the following new standard. The applicable provisions the new standard are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement replaces the requirements of Statement 45 and required governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate that is one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE C – CASH AND INVESTMENTS

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

The City’s cash deposits at June 30, 2018 and during the year were entirely covered by FDIC insurance or by pledged collateral held by the City’s agent banks in the City’s name. The City’s depository bank is Compass Bank (Texas State Bank).

The City does not pool cash. Instead, the City maintains separate cash accounts, in the form of checking and/or savings accounts, for each fund.

The Public Funds Investment Act (the “Act”) (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas; (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

State statutes and the City’s Investment Policy authorize the City invest in 1) obligations of the U.S. or its agencies and instrumentalities; 2) obligations of the State of Texas or its agencies; 3) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas; 4) money market savings accounts; and 5) public investment pools. Temporary investments are reported at cost which approximates market and are secured, when necessary, by the Federal Deposit Insurance Corporation (FDIC). The City is in substantial compliance with the requirements of the Act and with local policies.

The City’s investments at June 30, 2018 are as shown below:

	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit	180 days	<u>\$ 6,703</u>
		<u>\$ 6,703</u>

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Analysis of Specific Deposit and Investment Risk

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following Specific Investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not the City's name.

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE D – PROPERTY TAXES

Taxes are levied on October 1 and are due and payable at this time. All unpaid taxes levied October 1, become delinquent February 1, of the following year. A lien on all taxable real property is effective on January 1, of the tax year. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end.

San Augustine County property is assessed by the San Augustine County Tax Assessor. The property taxes due to the City were collected by the San Augustine Tax Collector.

Based on collection histories, the City has provided an allowance for uncollectible real property taxes equivalent to 10% of the delinquent tax receivable balance.

NOTE E – CHANGES IN GOVERNMENTAL ACTIVITIES CAPITAL ASSETS

	Balance July 1, 2017	Additions	Retirement	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 453,753	\$ -	\$ -	\$ 453,753
Capital assets being depreciated:				
Buildings and Improvements	3,195,659	-	-	3,195,659
Machinery and Equipment	1,492,690	45,284	-	1,537,974
	<u>4,688,349</u>	<u>45,284</u>	<u>-</u>	<u>4,733,633</u>
Less accumulated depreciation:				
Buildings and Improvements	2,106,542	71,335	-	2,177,877
Machinery and Equipment	1,375,506	35,926	-	1,411,432
	<u>3,482,048</u>	<u>107,261</u>	<u>-</u>	<u>3,589,309</u>
Total capital assets being depreciated, net	<u>1,206,301</u>	<u>(61,977)</u>	<u>-</u>	<u>1,144,324</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,660,054</u>	<u>\$(61,977)</u>	<u>\$ -</u>	<u>\$ 1,598,077</u>

Depreciation was charged to departments as follows:

City Council	\$ 3,691
Administrative Department	1,911
Street Department	4,572
Sanitation Department	2,085
Fire Department	13,670
Police Department	18,353
Library Department	12,394
Multi-Purpose Center	23,668
Parks and Recreation	<u>26,917</u>
Total	<u>\$ 107,261</u>

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE F – CHANGES IN PROPRIETARY CAPITAL ASSETS

The following is a summary of the property, plant and equipment of the Proprietary (System) Fund at June 30, 2018:

	Balance July 1, 2017	Additions	Retirement	Balance June 30, 2018
Capital Assets Being Depreciated:				
Plant and Equipment	\$ 1,717,404	\$ -	\$ -	\$ 1,717,404
Distribution System	4,037,798		-	4,037,798
Well & Tanks	787,260	-		787,260
Lake & Treatment Plant	1,610,006	271,125	-	1,881,131
Sewage Treatment Plant	3,288,573	-	-	3,288,573
	<u>11,441,041</u>	<u>271,125</u>	<u>-</u>	<u>11,712,166</u>
Accumulated Depreciation:				
Plant and Equipment	\$ 1,366,797	\$ 94,903	\$ -	\$ 1,461,700
Distribution System	3,503,258	40,857	-	3,544,115
Well & Tanks	285,385	14,152		299,537
Lake & Treatment Plant	1,393,068	11,862	-	1,404,930
Sewage Treatment Plant	1,103,586	75,347	-	1,178,933
	<u>7,652,094</u>	<u>237,121</u>	<u>-</u>	<u>7,889,215</u>
Total Capital Assets				
Being Depreciated, net	<u>3,788,947</u>	<u>34,005</u>	<u>-</u>	<u>3,822,951</u>
Construction in Progress	138,891	835,000	102,391	871,500
Land	12,522		-	12,522
Total Capital Assets	<u>\$ 3,940,360</u>	<u>\$ 869,005</u>	<u>\$ 102,391</u>	<u>\$ 4,706,973</u>

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE G – DEFINED BENEFIT PENSION PLANS

1. Plan Description

The City of San Augustine 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.

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

	Plan Year 2017	Plan Year 2018
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Service retirement eligibility (expressed as age/years of service)	60/10,0/25	60/10,0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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	20
Inactive employees entitled to but not yet receiving benefits	20
Active employees	<u>29</u>
Total	<u>69</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.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year ending June 30, 2018. Contribution rates for the City were 11.02% and 11.32% in the calendar years 2017 and 2018. The City's contributions to TMRS for the year ended June 30, 2018, were \$125,698, and were equal to the required contributions.

4. Net Pension Liability

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

Actuarial assumptions:

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

Inflation	2.5% 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 Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. These rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, there is also a 3 year set-forward for both males and females. In addition, a 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

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 arithmetic real rates of return for each major asset class in fiscal year 2017 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	<u>100%</u>	

Discount Rate

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2016	<u>\$5,057,091</u>	<u>\$4,447,763</u>	<u>\$609,328</u>
Changes for the year:			
Service cost	170,297		170,297
Interest	340,031		340,031
Change in benefit terms	-		-
Difference between expected and actual experience	(359,111)		(359,111)
Changes of assumptions			-
Contributions – employer		125,698	(125,698)
Contributions – employee		79,845	(79,845)
Net investment income		616,389	(616,389)
Benefit Payments, including refunds of			
Employee contributions	(209,491)	(209,491)	-
Administrative expenses		(3,195)	3,195
Other Changes		(162)	162
Net changes	<u>(58,274)</u>	<u>609,084</u>	<u>(667,358)</u>
Balance at 12/31/2017	<u>\$4,998,817</u>	<u>\$5,056,847</u>	<u>\$(58,030)</u>

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

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

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate 6.75%	1.0% Increase in Discount Rate (7.75%)
City's net pension liability	\$655,186	\$(58,030)	\$(639,978)

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 SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

For the year ended June 30, 2018, the City recognized pension income of \$(22,293).

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

	Deferred Outflows of Resources	Deferred Inflows of Resources	
Differences between expected and actual economic experience	\$ 20,743	\$ 259,882	
Changes in actuarial assumptions	4,268	-	
Difference between projected and actual investment earnings	123,590	252,932	-
Contributions subsequent to the measurement date	<u>61,349</u>	<u> </u>	
Total	<u>\$209,950</u>	<u>\$512,814</u>	

\$61,349 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net Deferred Outflows (Inflows) Of Resources
2018	\$(85,806)
2019	(110,555)
2020	(104,619)
2021	<u>(63,233)</u>
Total	<u>\$(364,213)</u>

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE G – DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN

1. Plan Description

The City of San Augustine participates in a single employer group term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The fund provides group-term coverage to current and retired employees with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB Statement No. 75 (i.e., no assets are accumulated for OPEB) and as such the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan.

2. Benefits Provided

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.

Membership

Inactive employees currently receiving benefit	11
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>29</u>
Total	<u>45</u>

3. Contributions – Contributions rates are as follows:

	<u>Employer</u>	<u>Retiree</u>
2017	.26%	.07%
2018	.26%	.08%

The City's contributions to the SDBF for the year ended June 30, 2018 was \$2,867.

4. Net Pension Liability

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

Actuarial assumptions:

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

Inflation	2.5% per year
Salary increases	3.5% to 10.5%, including inflation
Discount rate	3.31%,
Retirees' share of benefit-related costs	\$0

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB 68.

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%. These rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, there is also a 3 year set-forward for both males and females. In addition, a 3% minimum mortality rate will be 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.

Actuarial assumptions were developed primarily from the actuarial investigation of the experience over the four year period December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 2015 actuarial valuation.

Discount Rate

The discount rate used to measure the Total OPEB Liability was 3.31%. 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 OPEB Liability.

Changes in the OPEB Liability

Balance at 12/31/2016	<u>\$78,105</u>
Changes for the year:	
Service cost	2,281
Interest on total OPEB liability	2,980
Change in benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	6,799
Benefit payments *	<u>(798)</u>
Net changes	<u>11,262</u>
Balance at 12/31/2017	<u>\$89,367</u>

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

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

The following presents the net OPEB liability of the City, calculated using the discount rate of 3.31, as well as what the City's net 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:

	<u>1.0% Decrease in Discount Rate (2.31%)</u>	<u>Discount Rate 3.31%</u>	<u>1.0% Increase in Discount Rate (4.31%)</u>
City's OPEB liability	\$106,962	\$89,367	\$75,836

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

For the year ended June 30, 2018, the City recognized OPEB expense of \$6,640.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ -
Changes in actuarial assumptions	5,420	-
Contributions subsequent to the measurement date	<u>1,415</u>	<u>-</u>
Total	<u>\$6,835</u>	<u>\$ -</u>

\$1,415 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability for the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>Net Deferred Outflows (Inflows) Of Resources</u>
2018	\$1,379
2019	1,379
2020	<u>1,379</u>
Total	<u>\$5,420</u>

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE H – VACATION LEAVE AND SICK LEAVE

Unused vacation leave and sick leave are allowed to accumulate and are paid upon employee’s termination. At June 30, 2018 and 2017, \$214,410 and \$210,645 of unpaid vacation leave, sick leave, and “comp time” liability has been recorded. Changes in the accumulated liabilities are shown below:

	Proprietary Fund	General Fund Long-Term
Balance at July 1, 2017	\$ 75,167	\$ 135,478
Net Change	(860)	4,625
Balance at June 30, 2018	<u>\$ 74,307</u>	<u>\$ 140,103</u>

NOTE I – LONG-TERM DEBT PROPRIETARY FUND

The following is a summary of the City’s Proprietary Fund long-term debt transactions for the year ended June 30, 2018:

	Debt Outstanding July 1, 2017	Additions	Reductions	Debt Outstanding June 30, 2018
Line of Credit	\$ -	\$ -	\$ -	\$ -
Compensated Absences	75,167	-	860	74,307
Net OPEB Liability	34,366	4,955	-	39,321
Total Proprietary Fund Debt	<u>\$ 109,533</u>	<u>\$ 4,955</u>	<u>\$860</u>	<u>\$ 113,628</u>

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE J – LONG-TERM GOVERNMENTAL ACTIVITIES

The following is summary of the City’s governmental activities long-term debt transactions for the year ended June 30, 2018:

	Debt Outstanding July 1, 2017	Additions	Reductions	Debt Outstanding June 30, 2018
Certificates of Obligation	\$ 1,375,000	\$ -	\$ 65,000	\$ 1,310,000
Bonds	155,000	-	50,000	105,000
Compensated Absences	135,478	4,625	-	140,103
Net OPEB Liability	43,739	6,307	-	50,046
Total Long-Term Debt	\$ 1,709,217	\$ 10,932	\$ 115,000	\$ 1,605,149

Debt outstanding as of June 30, 2018, consisted of the following:

	Interest Rate	Maturity Date	Original Amount	Amount Outstanding
Certificate of Obligation				
2011 Series	2.32%	2022	\$ 500,000	\$ 295,000
2010 Series	0%	2040	1,050,000	1,015,000
General Obligation Refunding Bonds				
Series 2011	2.12%	2020	600,000	105,000
Total Bonds and Certificates of Obligation				\$ 1,415,000

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Presented below is a summary of total debt service requirements to maturity by years:

Year Ending June 30	Principal	Interest
2019	\$ 120,000	\$9,070
2020	125,000	6,502
2021	130,000	3,828
2022	135,000	1,972
2023	50,000	
2024-2028	250,000	
2029-2033	250,000	
2034-2038	250,000	
2039-2040	<u>105,000</u>	
Total	<u>\$1,415,000</u>	<u>\$21,372</u>

The City was in compliance with all long-term debt covenants at June 30, 2018.

NOTE K –HEALTH CARE COVERAGE

During the year June 30, 2018 employees of the City of San Augustine were covered by a health insurance plan (the Plan). The City pays 100% of employee’s premiums each month. If the employee chooses to have his/her dependents covered by the Plan, the City pays 20% of the total premium for that family. All premiums were paid to a licensed insurer, Texas Municipal League. The City continues to work to reduce out-of-pocket expenses for its employees.

The contract between the City and the licensed insurer is renewable in January, 2018, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Texas Municipal League are available for the year ended December 31, 2017, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

NOTE L –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; injuries to employers; and natural disasters.

Members purchase workers’ compensation coverage through Deep East Texas Self Insurance Fund, a public entity risk pool, which is self-sustained through member contributions. The Fund reinsures to statutory limits through commercial companies for claims in excess of \$750,000 for the year 2017-2018. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves.

The members of Deep East Texas Self Insurance Fund have no known premium liabilities for workers’ compensation coverage excess of the contracted annual premium. However, if the assets of the Fund were to be exhausted, members would be liable for their portion of the Fund’s liabilities. This would indicate that members would be contingently liable for the portion of the liability applicable to their political entity. Independent auditors conduct a financial audit at the close of each plan year and as of the most recent audit, the Fund has adequate assets to more than cover more than 100% of all liabilities.

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

The City continues to carry commercial insurance for all other risks of loss, including commercial building and property, vehicle collision and comprehensive, and City personnel and City Council errors and omissions insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M – COMMITMENTS AND CONTINGENCIES

Mission Delores

The City transferred the administration of the Mission Delores Center to the State of Texas. The City is committed to assisting the State in the payment of maintenance and operations costs with monthly payments to the State during the years ended June 30, 2018 and 2019, of \$3,091 and \$1,546, respectively.

Grants

The City participates in numerous state and Federal 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 has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018 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.

NOTE N - INTERFUND BALANCES AND ACTIVITIES

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2018, consisted of the following:

<u>Due to Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	System	\$36,058	Cash deposit correction

2. Transfers To and From Other Funds

Transfers to and from other funds for the year ended June 30, 2018, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
System Fund	General Fund	\$1,696	Operating Transfers
System Fund	General Fund	411,000	In Lieu of Taxes
System Fund	Debt Service	142,716	Debt Service
Capital Projects	Debt Service	<u>25,917</u>	Excess Project Funds
		<u>\$581,329</u>	

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE O – SEGMENT INFORMATION

The City’s Proprietary Fund accounts for the acquisition, operation, and maintenance of electric power and water and a wastewater facilities which are supported by user charges. Segment information for the year ended June 30, 2018 is as follows:

	Electric Department	Water and Wastewater Department	Total
Operating revenues	\$ 2,643,370	\$ 1,616,554	\$ 4,262,924
Net operating income before depreciation	\$ 469,685	\$ 432,488	\$ 902,173

NOTE P –LITIGATION

From time to time, the City is a defendant in legal proceedings relating to its operations as a municipality. In the best judgment of the City’s management, the outcome of any present legal proceedings will not have materially adverse effect on the accompanying basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SAN AUGUSTINE, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FROM FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES:				
Property Taxes	\$ 397,500	\$ 397,500	\$ 379,454	\$ (18,046)
Garbage Collection	201,600	201,600	202,376	776
Other Local Taxes and Permits	499,600	499,600	506,502	6,902
Fines and Parking	52,675	52,675	59,184	6,509
Interest Income	-	-	37	37
Miscellaneous	46,871	46,871	91,526	44,655
Donations and Grants	-	-	29,982	29,982
	1,198,246	1,198,246	1,269,061	70,815
EXPENDITURES:				
City Council	37,188	37,188	29,976	7,212
Administrative Department	259,419	259,419	231,885	27,534
Street Department	182,564	182,564	182,091	473
Sanitation Department	154,939	154,939	156,114	(1,175)
Fire Department	149,035	149,035	111,493	37,542
Police Department	622,084	622,084	550,511	71,573
Corporation Court	96,116	96,116	88,142	7,974
Municipal Buildings	18,538	18,538	11,244	7,294
Library Department	150,416	150,416	141,358	9,058
Multi-Purpose Center	9,395	9,395	6,072	3,323
Mission Delores	37,101	37,101	36,461	640
Main Street Program	54,298	54,298	51,298	3,000
Tourism Center	12,149	12,149	10,049	2,100
Miscellaneous	-	-	10,373	(10,373)
Capital Outlay	-	-	107,140	(107,140)
	1,783,242	1,783,242	1,724,207	59,035
Excess (Deficiency) of Revenues Over (Under) Expenditures	(584,996)	(584,996)	(455,146)	129,850
OTHER FINANCING SOURCES (USES):				
Payments in Lieu of Taxes	499,995	499,995	411,000	88,995
Transfers In (Out)	-	-	1,696	(1,696)
TOTAL OTHER FINANCING SOURCES (USES)	499,995	499,995	412,696	87,299
Change in Fund Balance	(85,001)	(85,001)	(42,450)	42,551
Fund Balance at Beginning of Year	179,732	179,732	179,732	-
FUND BALANCE AT END OF YEAR	\$ 94,731	\$ 94,731	\$ 137,282	\$ 42,551

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES:				
Other Local Taxes and Permits	\$ -	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:				
Current:				
Payments on Long-Term Debt	126,872	126,872	126,902	(30)
Total Payments on Long-Term Debt	<u>126,872</u>	<u>126,872</u>	<u>126,902</u>	<u>(30)</u>
Other Financing Sources and (Uses)				
Operating Transfer In	138,000	138,000	168,633	30,633
Operating Transfer Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources and (Uses)	<u>138,000</u>	<u>138,000</u>	<u>168,633</u>	<u>30,633</u>
Net Change in Fund Balance	11,128	11,128	41,731	30,603
Fund Balance - September 1 (Beginning)	<u>59,476</u>	<u>59,476</u>	<u>59,476</u>	<u>-</u>
Fund Balance - August 31 (Ending)	<u>\$ 70,604</u>	<u>\$ 70,604</u>	<u>\$ 101,207</u>	<u>\$ 30,603</u>

CITY OF SAN AUGUSTINE, TEXAS
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
AND RELATED RATIOS
LAST TEN FISCAL YEARS

		2018
Total OPEB Liability		
Service Cost	\$	2,281
Interest (on the Total Pension Liability)		2,980
Changes in benefit terms		-
Difference between expected and actual experience		-
Change of assumptions		6,799
Benefit payments, including refunds of employee contributions		(798)
Net Change in Total OPEB Liability		11,262
Total OPEB Liability - Beginning		78,105
Total OPEB Liability - Ending (a)	\$	89,367
Covered Employee Payroll	\$	1,140,638
Net OPEB Liability as a Percentage of Covered Employee Payroll		7.83%

Notes to Schedule:

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

CITY OF SAN AUGUSTINE, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Total Pension Liability				
Service Cost	\$ 170,297	\$ 162,835	\$ 146,847	\$ 144,222
Interest (on the Total Pension Liability)	340,031	316,556	309,910	317,052
Changes in benefit terms	-	-	-	-
Difference between expected and actual experience	(359,111)	58,457	(73,747)	(336,903)
Change of assumptions	-	-	46,964	-
Benefit payments, including refunds of employee contributions	(209,491)	(178,109)	(172,965)	(282,455)
Net Change in Total Pension Liability	<u>(58,274)</u>	<u>359,739</u>	<u>257,009</u>	<u>(158,084)</u>
Total Pension Liability - Beginning	<u>5,057,091</u>	<u>4,697,352</u>	<u>4,440,343</u>	<u>4,598,427</u>
Total Pension Liability - Ending (a)	<u>\$ 4,998,817</u>	<u>\$ 5,057,091</u>	<u>\$ 4,697,352</u>	<u>\$ 4,440,343</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 125,698	\$ 110,489	\$ 116,068	\$ 133,532
Contributions - Employee	79,845	75,939	72,237	76,633
Net Investment Income	616,389	281,251	6,115	228,276
Benefit payments, including refunds of employee contributions	(209,491)	(178,109)	(172,965)	(282,455)
Administrative expense	(3,195)	(3,176)	(3,724)	(2,383)
Other	(162)	(171)	(186)	(196)
Net Change in Plan Fiduciary Net Position	<u>609,084</u>	<u>286,223</u>	<u>17,545</u>	<u>153,407</u>
Plan Fiduciary Net Position - Beginning	<u>4,447,763</u>	<u>4,161,540</u>	<u>4,143,995</u>	<u>3,990,588</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 5,056,847</u>	<u>\$ 4,447,763</u>	<u>\$ 4,161,540</u>	<u>\$ 4,143,995</u>
Net Pension Liability - Ending (a) - (b)	(58,030)	609,328	535,812	296,348
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	101.16%	87.95%	88.59%	93.33%
Covered Employee Payroll	\$ 1,140,638	\$ 1,084,843	\$ 1,031,954	\$ 1,094,758
Net Pension Liability as a Percentage of Covered Employee Payroll	-5.09%	56.17%	51.92%	27.07%

Notes to Schedule:

N/A

CITY OF SAN AUGUSTINE, TEXAS
SCHEDULE OF CONTRIBUTIONS - PENSION
LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Actuarially determined contributions	\$ 123,182	\$ 121,403	\$ 114,066	\$ 120,393
Contributions in relation to the actuarially determined contribution	123,182	121,403	114,066	120,393
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 1,102,613	\$ 1,143,961	\$ 1,063,213	\$ 1,004,127
Contributions as a percentage of covered employee payroll	11.17%	10.61%	10.73%	11.99%

Notes to Schedule of Contributions

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

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	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience- based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SAN AUGUSTINE, TEXAS
SCHEDULE OF DEPARTMENTAL NET OPERATING INCOME
(BEFORE DEPRECIATION) - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018

	ELECTRIC DEPARTMENT	WATER & SEWER DEPARTMENT	TOTAL
Operating Revenues			
Electric	\$ 2,643,370		\$ 2,643,370
Water		\$ 1,060,613	1,060,613
Sewer		421,447	421,447
Tapping Fees		3,325	3,325
Penalties		63,720	63,720
Other Charges for Services		21,836	21,836
Miscellaneous		48,613	48,613
Total Operating Revenues	<u>2,643,370</u>	<u>1,619,554</u>	<u>4,262,924</u>
Operating Expenses			
Administration	97,340	97,341	194,681
Water production & treatment		560,668	560,668
Water distribution		212,304	212,304
Sewer collection		131,975	131,975
Sewer treatment		184,778	184,778
Electric department	2,076,345		2,076,345
Total Operating Expense (Excluding Depreciation)	<u>2,173,685</u>	<u>1,187,066</u>	<u>3,360,751</u>
Net Operating Income Before Depreciation	<u>\$ 469,685</u>	<u>\$ 432,488</u>	<u>\$ 902,173</u>

CITY OF SAN AUGUSTINE, TEXAS
COMPARATIVE SCHEDULE OF OPERATING EXPENSES - PROPRIETARY
FOR THE YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	<u>2018</u>	<u>2017</u>
Administration		
Salaries and wages	\$ 104,170	\$ 110,574
Supplies	5,002	7,561
Contractual	49,716	44,217
Maintenance - equipment	664	186
Sundry charges	<u>35,129</u>	<u>51,672</u>
Total	<u>194,681</u>	<u>214,210</u>
Water Treatment and Production		
Salaries and wages	92,066	102,831
Supplies	180,266	164,239
Contractual	123,217	78,006
Maintenance - buildings & structures	18,436	12,895
Maintenance - equipment	113,983	42,540
Sundry charges	<u>32,700</u>	<u>43,654</u>
Total	<u>560,668</u>	<u>444,165</u>
Water distribution		
Salaries and wages	47,416	47,108
Supplies	40,159	33,404
Contractual	46,646	55,480
Maintenance - buildings & structures	40,988	23,025
Maintenance - equipment	19,122	10,110
Sundry charges	<u>17,973</u>	<u>23,356</u>
Total	<u>212,304</u>	<u>192,483</u>
Sewer Collection		
Salaries and wages	44,376	43,835
Supplies	9,508	7,338
Contractual	10,125	8,348
Maintenance - buildings & structures	38,561	15,260
Maintenance - equipment	11,429	4,657
Sundry charges	<u>17,976</u>	<u>23,089</u>
Total	<u>131,975</u>	<u>102,527</u>

	<u>2018</u>	<u>2017</u>
Sewer Treatment		
Salaries	\$ 82,444	\$ 70,432
Supplies	21,163	12,863
Contractual	49,182	81,185
Maintenance - buildings & structures	222	-
Maintenance - equipment	9,172	26,042
Sundry charges	22,595	30,166
Total	<u>184,778</u>	<u>220,688</u>
Electric Department		
Salaries and wages	125,580	144,214
Supplies	83,065	84,303
Contractual	1,785,389	1,865,335
Maintenance - equipment	50,499	31,893
Sundry charges	31,812	55,546
Total	<u>2,076,345</u>	<u>2,181,291</u>
Depreciation	<u>237,121</u>	<u>241,537</u>
Total Operating Expenses	<u><u>\$ 3,597,872</u></u>	<u><u>\$ 3,596,901</u></u>

CITY OF SAN AUGUSTINE, TEXAS
COMPARATIVE SCHEDULE OF CURRENT EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

City Council	<u>2018</u>	<u>2017</u>
Mayor and council fees and wages	\$ 8,200	\$ 8,300
Supplies	1,526	1,166
Contractual	18,637	19,781
Maintenance - equipment	1,025	815
Sundry charges	588	588
Total	<u>29,976</u>	<u>30,650</u>
Administrative Department		
Salaries and wages	112,140	122,597
Supplies	4,983	6,177
Contractual	70,732	63,277
Maintenance - equipment	523	2,176
Sundry charges	43,507	43,763
Total	<u>231,885</u>	<u>237,990</u>
Street Department		
Salaries and wages	52,526	48,644
Supplies	19,385	18,019
Contractual	9,987	29,730
Maintenance - buildings & structures	48,067	31,417
Maintenance - equipment	16,912	12,034
Sundry charges	35,214	29,528
Total	<u>182,091</u>	<u>169,372</u>
Sanitation Department		
Salaries and wages	-	-
Supplies	-	-
Contractual	155,350	145,792
Maintenance - buildings & structures	18	-
Maintenance - equipment	746	-
Sundry charges	-	-
Total	<u>156,114</u>	<u>145,792</u>
Fire Department		
Salaries and wages	73,021	70,944
Supplies	7,194	9,593
Contractual	10,186	8,952
Maintenance - buildings & structures	-	-
Maintenance - equipment	6,592	20,719
Sundry charges	14,500	17,001
Total	<u>111,493</u>	<u>127,209</u>
Police Department		
Salaries and wages	344,833	343,094
Supplies	19,082	18,876
Contractual	27,281	33,051
Maintenance - buildings and structures	2,204	736
Maintenance - equipment	8,788	10,308
Sundry charges	148,323	137,863
Total	<u>550,511</u>	<u>543,928</u>

	2018	2017
Corporation Court		
Salaries and wages	\$ 38,971	\$ 38,961
Supplies	1,348	774
Contractual	33,288	29,132
Maintenance - equipment	14,535	14,246
Sundry charges	-	-
Total	88,142	83,113
Municipal Buildings		
Salaries and wages	1,392	3,796
Supplies	1,630	1,204
Contractual	2,382	2,331
Maintenance - buildings & structures	5,056	1,258
Sundry charges	784	1,207
Total	11,244	9,796
Library Department		
Salaries and wages	85,712	96,876
Supplies	2,475	2,189
Contractual	17,755	20,399
Maintenance - buildings & structures	4,409	3,564
Maintenance - equipment	914	699
Sundry charges	30,093	34,460
Total	141,358	158,187
Multi-Purpose Center		
Salaries and wages	329	1,050
Supplies	58	25
Contractual	3,931	4,154
Maintenance - buildings & structures	1,162	851
Sundry charges	592	588
Total	6,072	6,668
Mission Delores		
Salaries and wages	-	-
Supplies	-	-
Contractual	35,873	59,345
Maintenance - buildings & structures	-	-
Maintenance - equipment	-	-
Sundry	588	-
Total	36,461	59,345
El Camino Information Center		
Salaries and wages	-	-
Supplies	-	140
Contractual	-	96
Maintenance - buildings and grounds	-	-
Maintenance - equipment	-	-
Sundry	-	25
Total	-	261

CITY OF SAN AUGUSTINE, TEXAS
COMPARATIVE SCHEDULE OF CURRENT EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	<u>2018</u>	<u>2017</u>
Main Street Program		
Salaries and wages	32,741	32,123
Supplies	621	457
Contractual	3,175	45,738
Maintenance - buildings and grounds	-	-
Maintenance - equipment	-	-
Sundry	14,761	14,389
Total	<u>51,298</u>	<u>92,707</u>
Tourism Center		
Salaries and wages	1,320	2,400
Supplies	281	38
Contractual	5,655	4,898
Maintenance - buildings and grounds	2,787	1,619
Maintenance - equipment	-	-
Sundry	6	588
Total	<u>10,049</u>	<u>9,543</u>
 Departmental Total Expenditures	 <u><u>\$ 1,606,694</u></u>	 <u><u>\$ 1,674,561</u></u>

CITY OF SAN AUGUSTINE, TEXAS
OTHER DATA
FOR THE YEAR ENDED JUNE 30, 2018
UNAUDITED

Cash balance of General Obligation debt service funds:

Interest and Sinking Fund Cash \$ 101,207

Assessed valuation for 2017 tax year: \$60,161,430

Ad valorem tax rate for 2017 tax year: \$0.641454/\$100 valuation

2017 tax year collections, including penalty and interest: \$336,183

Insurance Coverage	Description of Coverage	Amount
Texas Municipal League	Automobile liability	\$ 1,000,000
Texas Municipal League	Real and personal property	\$ 10,810,137
Texas Municipal League	General liability	\$ 2,000,000
Texas Municipal League	Equipment coverage	\$ 297,827
Texas Municipal League	Crime-Employee dishonesty coverage	\$ 25,000
Texas Municipal League	Law enforcement liability	\$ 2,000,000
Texas Municipal League	Errors and omissions	\$ 2,000,000
Texas Municipal League	Forgery and alteration	\$ 25,000
Texas Municipal League	Theft disappearance and destruction	\$ 50,000
Texas Municipal League	Computer fraud	\$ 25,000
Texas Municipal League	Boiler and machinery	\$ 500,000

System connections - The records of the City indicated that there were 1,110 water connections, 782 sewer connections and 1,115 electricity connections at June 30, 2018.

REPORT ON INTERNAL CONTROLS AND ON COMPLIANCE

TILLER AND COMPANY

A PROFESSIONAL CORPORATION OF
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of San Augustine, Texas (the "City") as of and for the year ended June 30, 2018, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 13, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as 2018-A to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as 2018-B to be a significant deficiency.

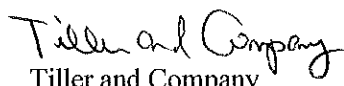
Honorable Mayor and
City Council Members
City of San Augustine, Texas
Page -2-

Compliance and Other Matters

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

Purpose of This Report

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


Tiller and Company
A Professional Corporation of
Certified Public Accountants

San Augustine, Texas
December 13, 2018

CITY OF SAN AUGUSTINE, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

2018-1 – GENERAL LEDGER

Criteria: Accounting should be completed timely to ensure all transactions are properly recorded.

Condition: The City was not performing all of the accounting procedures necessary to prepare monthly financial reports on a timely basis.

Effect: Accounting transactions were being improperly recorded or not recorded at all. This then requires multiple material audit adjustments.

Cause: Accounting personnel were not timely recording transactions.

Recommendation: In order for management and council to receive timely and credible financial information, we would suggest that all entries necessary to prepare a monthly “set of books” be done on a timely basis (before council meets for the next month). Some areas that need special attention are as follows:

- All bank accounts should be reconciled.
- Activity of all bank accounts should be recorded in the general ledger.
- Customer utility billings should be reconciled to the general ledger and all reports necessary to prepare the reconciliations should be printed and kept on a monthly basis.
- Research should be done to correctly classify all general ledger coding of deposits and disbursements.
- Accounts payable should be maintained on the general ledger.

Views of responsible officials and planned corrective actions: The City agrees with this finding. The City has had changes in personnel during the year. These changes will allow them to place greater emphasis on implementing procedures to ensure proper and timely accounting.

2018-2 SEGREGATION OF DUTIES

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among City personnel.

Effect: When one individual is responsible for all of the related activities, the potential for errors and irregularities is increased.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of segregation.

Views of responsible officials and planned corrective actions: The City agrees with this finding. The City has had changes in personnel during the year. These changes will allow them to place greater emphasis and the review segregation and alternative controls.