

CITY OF SAN AUGUSTINE, TEXAS
ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED JUNE 30, 2017

CITY OF SAN AUGUSTINE, TEXAS

Annual Financial Report for the
Year Ended June 30, 2017

TABLE OF CONTENTS

FINANCIAL SECTION	
PAGE	
2	Independent Auditor's Report.....
4-11	Management Discussion and Analysis (Required Supplementary Information).....
BASIC FINANCIAL STATEMENTS	
12	Government-Wide Financial Statements:
13	Statement of Net Position
13	Statement of Activities.....
13	Fund Financial Statements:
14	Balance Sheet – Governmental Funds
14	Reconciliation of Balance Sheet – Governmental Funds to the Statement of Net Position.....
15	Statement of Revenues, Expenditures, and Changes in Fund Balance –
16	Governmental Funds.....
16	Reconciliation of the Statement of Revenues, Expenditures, and Changes
17	In Fund Balances of Governmental Funds to Statement of Activities.....
17	Statement of Net Position – Proprietary Fund
18	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
19	Statement of Cash Flows – Proprietary Funds
20	Notes to the Financial Statements.....
21-40	REQUIRED SUPPLEMENTARY INFORMATION
41	Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual –
41	General Fund (Required Supplementary Information).....
42	Schedule of Changes in Net Pension Liability and Related Ratios
43	Schedule of Contributions (Last Ten Fiscal Years)
SUPPLEMENTAL SCHEDULES	
44	Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual –
44	Debt Service Fund
45	Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual –
45	Capital Projects Fund
46	Schedule of Departmental Net Operating Income (Before Depreciation)
46	Proprietary Fund
47-48	Comparative Schedule of Operating Expenses – Proprietary Fund
49-51	Comparative Schedule of Current Expenditures – General Fund
52	Other Data (Unaudited).....
REPORTS ON INTERNAL CONTROLS AND ON COMPLIANCE	
53-54	Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance
53-54	And Other Matters Based on An Audit of Financial Statements Performed In Accordance With
53-54	Government Auditing Standards.....

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of San Augustine, Texas 75972

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2017, 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.

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, Schedule of Changes in Net Pension 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 and Debt Service and Capital Projects budgetary comparison schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

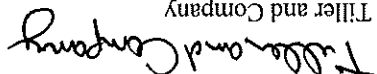
The schedules referred to above are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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, 2017 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, 2017

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.

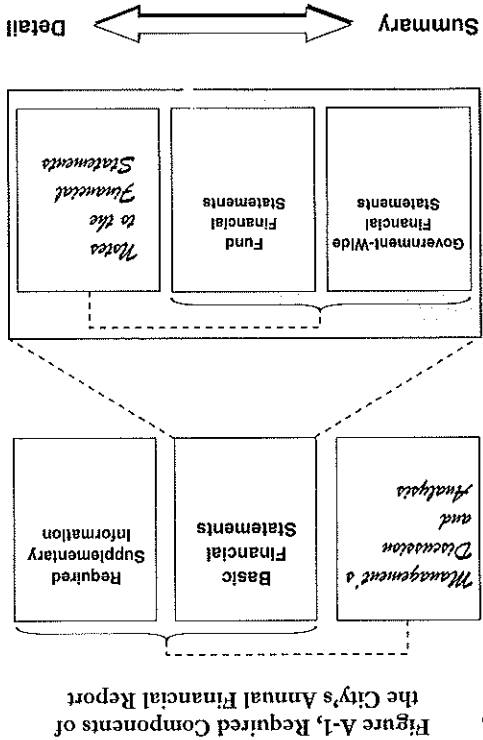


Figure A-1, Required Components of the City's Annual Financial Report

OVERVIEW OF THE FINANCIAL STATEMENTS

- The City's total combined assets and deferred outflows exceeded its liabilities and deferred inflows (net position) by \$4,594,885 at June 30, 2017. Included in this amount is \$427,852 in unrestricted net position.
- During the year, the City's governmental activities expenses were \$110,638 less than the \$2,045,288 generated in taxes and other revenues for governmental activities. The governmental funds revenues and expenses were increased \$221,296 due to capital grants.
- The total cost of the City's governmental activities, excluding grant expenses, increased by \$26,985 from last year.
- The City transferred \$512,699 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 \$179,732, an increase of \$29,245 from last year.

FINANCIAL HIGHLIGHTS

Please read it in conjunction with the City's financial statements, which follow this section. 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, 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- *Proprietary fund* – The System Fund that accounts for revenues and expenses related to services for electricity and water and sewer.

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 governmental funds 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.

The City has the following kinds of funds:

- 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 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.

Fund Financial Statements

The government-wide financial statements of the City include the Governmental activities and the Proprietary Fund activities.

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

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*.

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.

Government-Wide Statements

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The City's combined net position was \$4,594,885 at June 30, 2017. (See Table A-1).

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

		June 30, 2017			June 30, 2016		
		Governmental	Business-type	Total Primary	Governmental	Business-type	Total Primary
		Activities	Activities	Government	Activities	Activities	Government
Current assets:							
Cash	\$ 270	\$ 463	\$ 733	\$ 209	\$ 108	\$ 317	
Property taxes receivable	202	-	202	198	-	198	
Accounts receivable	41	464	505	39	432	471	
Due from other funds	35	(35)	-	35	(35)	-	
Prepaid expense	9	6	15	11	7	18	
Total current assets:	557	898	1,455	492	512	1,004	
Noncurrent assets:							
Capital assets	5,142	11,592	16,734	5,074	11,429	16,503	
Less accumulated depreciation	(3,482)	(7,652)	(11,134)	(3,379)	(7,411)	(10,790)	
Total noncurrent assets	1,660	3,940	5,600	1,695	4,018	5,713	
Total Assets	2,217	4,838	7,055	2,187	4,530	6,717	
Deferred Outflow of Resources							
	175	138	313	199	145	344	
Current liabilities:							
	\$ 270	\$ 463	\$ 733	\$ 209	\$ 108	\$ 317	
Accounts payable	73	42	115	10	42	52	
Refundable deposits	-	215	215	-	209	209	
Current portion of long-term debt	115	-	115	115	-	115	
Total current liabilities	188	257	445	125	251	376	
Long-term liabilities:							
Long-term debt	1,892	343	2,235	1,977	298	2,275	
Total Liabilities	2,080	600	2,680	2,102	549	2,651	
Deferred Inflow of Resources							
	52	41	93	135	72	207	
Net Position:							
Invested in capital assets	125	3,940	4,065	50	4,018	4,068	
Restricted for debt service	59	-	59	91	-	91	
Restricted for capital projects	43	-	43	43	-	43	
Unrestricted	33	395	428	(35)	36	1	
Total Net Position	\$ 260	\$ 4,335	\$ 4,595	\$ 149	\$ 4,054	\$ 4,203	

The City has \$427,852 in unrestricted net position available to fund the programs of the City next year.

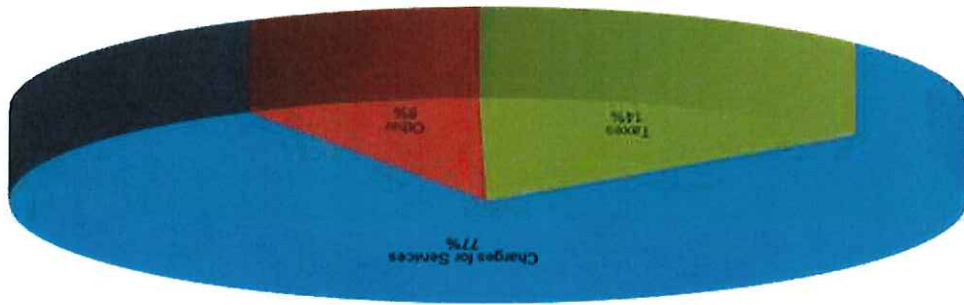


Figure A-3 City Sources of Revenue for Fiscal Year 2017

Changes in net assets. The City's total revenues were \$5,923,933. A significant portion, 77% of the City's revenue comes from charges for services. (See Figure A-3.) 14% comes from taxes and 8% comes from other revenues. The total cost of all programs and services was \$5,532,510; 65% of these costs are for water and sewer and electrical services.

Government Wide Activities

Property tax rate decreased to \$0.653401 from \$0.655134 per \$100 valuation.

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

June 30, 2017			June 30, 2016		
Governmental	Business-type	Total Primary	Governmental	Business-type	Total Primary
Activities	Activities	Government	Activities	Activities	Government
\$ 202	\$ 4,361	\$ 4,563	\$ 195	\$ 4,199	\$ 4,394
Operating Grants and Contributions	-	-	40	-	40
Capital Grants and Contributions	221	139	434	-	434
General Revenues:					
Property Taxes	383	-	363	-	363
Sales and Other Taxes	468	-	510	-	510
Other	100	50	107	30	137
Totals	1,394	4,550	1,649	4,229	5,878
Transfers	671	(671)	547	(547)	-
Total Revenues	2,045	3,879	5,924	2,196	5,878
Business-Type Activities Expenses:					
Water and Sewer	-	1,228	-	1,104	1,104
Electric	-	2,370	-	2,648	2,648
Governmental-Type Activities Expenses:					
General Government	542	-	542	-	351
Public Safety	771	-	771	-	723
Public Works	320	-	320	-	713
Parks, Recreation and Culture	288	-	288	-	316
Interest and Fiscal Agent Fees	14	-	14	-	17
Total Expenses	1,935	3,598	5,533	2,120	5,872
Increase (Decrease) in Net Position	\$ 110	\$ 281	\$ 391	\$ 76	\$ 6

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 \$1.9 million.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$383 thousand.
- Some of the governmental activities which were paid by those who directly benefited from the programs was \$202 thousand.
- Grants and contributions amounted to \$360 thousand.

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

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
General government	\$542	\$351	\$385	\$351
				9%
Public safety	771	723	705	723
				(2)%
Public works	320	713	124	89
				39%
Parks, recreation and culture	288	316	283	271
				4%
				% Change

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types decreased \$266,815 due primarily to a decrease in proceeds from grants as compared with the prior year. Revenues from business-type activities increased by \$320,653, due primarily to increases in electricity and water rates.

For 2017, actual revenues in excess of expenditures before transfers were above the original budgeted amounts by \$29,245.

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 \$16,734,554 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)

	2017	2016	2017-2016
Land	\$466	\$466	-
Buildings and improvements	12,944	12,919	-
Vehicles and equipment	3,185	3,118	2%
Construction in progress	139	-	100%
Totals at historical cost	16,734	16,503	1%
Total accumulated depreciation	11,134	10,789	3%
Net capital assets	\$5,600	\$5,714	(1)%

Total
Percentage
Change
2017-2016

Long-Term Debt

At year-end the City had \$2,350 thousand in certificates of obligation, compensated absences payable, pension liabilities and notes outstanding as shown in Table A-5.

Table A-5

City's Long-Term Debt
(in thousands of dollars)

	2017	2016	2017-2016
Compensated Absences	\$211	\$209	1%
Certificates of Obligation	1,375	1,440	(4)%
Bonds	155	205	(24)%
Notes Payable	-	-	-
Net Pension Liability	609	536	14%
Total Long-Term Debt	\$2,350	\$2,390	(2)%

Total
Percentage
Change
2017-2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The budget, beginning July 1, 2017 and ending June 30, 2018, is referred to as the FY2018 budget. This document outlines specific goals and objectives set by Council authorization and directives. The budget is a fluid document that is changing and moving on a constant basis and serves as a guide for the following twelve-month period. We utilize past history, present conditions and expected future trends in preparing estimated revenues. Once revenues are developed, we then evaluate costs associated with the delivery of services, any new or expanded costs including new programs. Within the resources available, we adjust the costs to achieve a balanced budget. The budget, even after adoption, is still and estimated financial plan and is always subject to change throughout the year.

The City of San Augustine has had a slight increase in commercial development including the opening of a new Subway restaurant and the proposed opening of a new dentist. The Checkpoint Convenience store continues to attract motorists and their recent acquisition by the Stripes chain shows that the San Augustine market is considered a market worth investing in. Both of these highlights are spurred on by continued cheap gas prices making traveling affordable again. The City negotiated a new five-year contract for wholesale power with their electric provider, DETEC, and the reduced cost has helped the City maintain service levels without a rate increase. Even with the slight economic upturn, we will continue to present a conservative budget for FY 2018 and for future years, utilizing fund balances to offset rate and fee increases when possible.

The budget document and financial plan for FY2018 has been developed and constructed in such a way as to utilize Fund Balances, when needed. These balances through the various accounts are used to provide as much economic relief to our citizens as possible, while still providing a financially sound and strong municipal organization. We continue to strive toward our goal of providing quality services at the lowest cost possible.

The FY2018 budget provides for a reduction in the number of FT equivalent employees brought about by the transferring of Mission Dolores to the Texas Historical Commission (THC). The THC has committed to investing in the Mission and have already expanded the visiting hours and created an outreach program to increase visitation. The budget contains minimal capital improvements and a value conscience replacement program for equipment by purchasing used surplus equipment. The property tax rate received a slight decrease for the third year in a row to \$0.641454/\$100.

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, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	270,164	\$ 463,675	\$ 733,839
Receivables (Net of Allowance for Uncollectible, Where Applicable):			
Property Taxes	202,096	-	202,096
Accounts	40,754	464,517	505,271
Internal Balances	35,106	(35,106)	-
Prepaid Expenses	8,722	6,160	14,882
Fixed Assets:			
Land	453,753	12,522	466,275
Buildings and Improvements	1,089,117	-	1,089,117
Furniture & Equipment	117,184	350,607	467,791
Distribution System	-	534,538	534,538
Wells and Tanks	-	501,875	501,875
Lake and Treatment Plant	-	216,938	216,938
Sewer and Treatment Plant	-	2,184,987	2,184,987
Construction in Progress	-	138,891	138,891
Total Assets	2,216,896	4,839,604	7,056,500
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to TFRS	175,164	137,751	312,915
Total Deferred Outflow of Resources	175,164	137,751	312,915
LIABILITIES			
Accounts Payable	73,393	42,449	115,842
Refundable Deposits	-	215,122	215,122
Long-Term Liabilities:			
Portion Due in One Year:			
Bonds	50,000	-	50,000
Certificates of Obligation	65,000	-	65,000
Portion Due in More Than One Year:			
Compensated Absences	135,478	75,167	210,645
Bonds	105,000	-	105,000
Certificates of Obligation	1,310,000	-	1,310,000
Net Pension Liability	341,224	268,104	609,328
Total Liabilities	2,080,095	600,842	2,680,937
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to TFRS	52,345	41,250	93,595
Total Deferred Inflow of Resources	52,345	41,250	93,595
NET POSITION			
Invested in Capital Assets, Net of Related Debt	125,054	3,940,358	4,065,412
Restricted For:			
Capital Projects	42,145	-	42,145
Debt Service	59,476	-	59,476
Unrestricted (Deficit)	32,945	394,907	427,852
Total Net Position	\$ 259,620	\$ 4,335,265	\$ 4,594,885

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS		
	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENT ACTIVITIES:						
General government	\$ 541,623		\$ 155,844	\$ (385,779)		\$ (385,779)
Public safety	770,762		65,452	(705,310)		(705,310)
Public works	319,980	\$ 196,314		(123,666)		(123,666)
Parks, recreation and culture	287,981	5,430	-	(282,551)		(282,551)
Interest and fiscal agent fees	14,304			(14,304)		(14,304)
TOTAL GOVERNMENTAL ACTIVITIES	<u>1,934,650</u>	<u>201,744</u>	<u>\$ -</u>	<u>(1,511,610)</u>	<u>\$ -</u>	<u>(1,511,610)</u>
BUSINESS-TYPE ACTIVITIES:						
Water and sewer	1,228,098	1,451,681			362,474	362,474
Electric	2,369,762	2,908,878			539,116	539,116
TOTAL BUSINESS-TYPE ACTIVITIES	<u>3,597,860</u>	<u>4,360,559</u>	<u>-</u>	<u>-</u>	<u>901,590</u>	<u>901,590</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 5,532,510</u>	<u>\$ 4,562,303</u>	<u>\$ -</u>	<u>(1,511,610)</u>	<u>901,590</u>	<u>(610,020)</u>
General Revenues:						
Property Taxes, Levied for General Purposes				382,667	-	382,667
Sales and Other Taxes				468,463	-	468,463
Miscellaneous				100,336	49,977	150,313
Transfers, net				670,782	(670,782)	-
Total General Revenues and Transfers				1,622,248	(620,805)	1,001,443
Change in Net Assets				110,638	280,785	391,423
Net Position - Beginning				148,982	4,054,480	4,203,462
Net Position - Ending				\$ 259,620	\$ 4,335,265	\$ 4,594,885

The accompanying notes are an integral part of this statement.

**CITY OF SAN AUGUSTINE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL
ASSETS				
Cash	\$ 168,543	\$ 59,476	\$ 42,145	\$ 270,164
Receivables (Net of Allowance for Uncollectibles, Where Applicable):				
Property Taxes	202,096	-	-	202,096
Accounts	40,754	-	-	40,754
Prepaid Expenses	8,722	-	-	8,722
Due from Other Funds	35,106	-	-	35,106
Total Assets	\$ 455,221	\$ 59,476	\$ 42,145	\$ 556,842
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts Payable	\$ 73,393	\$ -	\$ -	\$ 73,393
Total Liabilities	73,393	-	-	73,393
Deferred Inflow of Resources				
Unavailable Revenue - Taxes	202,096	-	-	202,096
Fund Balance:				
Nonspendable	8,722	59,476	-	8,722
Debt Service	-	-	-	-
Capital Projects	-	-	42,145	42,145
Unassigned	171,010	-	-	171,010
Total Fund Balance	179,732	59,476	42,145	281,353
Total Liabilities and Fund Balance	\$ 455,221	\$ 59,476	\$ 42,145	\$ 556,842

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, 2017

		\$	
	Total fund balances - governmental funds balance sheet	281,353	
	Amounts reported for governmental activities in the statement of net position ("SNP") are different because:		
1,660,054	Capital assets used in governmental activities are not reported in the funds.		
	Certain pension 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	175,164	
	Net pension liability is not due and payable in the current period and is not reported in the funds	(341,224)	
	Pension related deferrals	(52,345)	
	Property taxes receivable unavailable to pay for current period	202,096	
	expenditures are deferred in the funds.		
	Payables for long-term debt are not reported in the funds.	(1,665,478)	
	Net position of governmental activities - statement of net position	259,620	\$

**CITY OF SAN AUGUSTINE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Property Taxes	\$ 378,386	\$ -	\$ -	\$ 378,386
Garbage Collection	196,314	-	-	196,314
Other Local Taxes and Permits	468,463	-	-	468,463
Fines and Parking	52,474	-	-	52,474
Interest Income	28	-	65	93
Miscellaneous	53,199	-	-	53,199
Donations and Grants	221,296	-	-	221,296
TOTAL REVENUES	1,370,160	-	65	1,370,225
EXPENDITURES:				
City Council	30,650	-	-	30,650
Administrative Department	237,990	-	-	237,990
Street Department	169,372	-	-	169,372
Sanitation Department	145,792	-	-	145,792
Fire Department	127,209	-	-	127,209
Police Department	543,928	-	-	543,928
Corporation Court	83,113	-	-	83,113
Municipal Buildings	9,796	-	-	9,796
Library Department	158,187	-	-	158,187
Multi-Purpose Center	6,668	-	-	6,668
Mission Delores	59,345	-	-	59,345
El Camino Information Center	261	-	-	261
Main Street Program	92,707	-	-	92,707
Tourism Center	9,543	-	-	9,543
R. V. Park	-	-	-	-
Miscellaneous	2,860	-	400	3,260
Capital Outlay	80,433	-	-	80,433
Grants	155,843	-	-	155,843
Debt Service:				
Principal Retirement	-	115,000	-	115,000
Interest and Fiscal Charges	-	14,304	-	14,304
TOTAL EXPENDITURES	1,913,697	129,304	400	2,043,401
Excess (Deficiency) of Revenues Over Expenditures	(\$43,537)	(129,304)	(335)	(673,176)
OTHER FINANCING SOURCES (USES):				
Transfers in Lieu of Taxes	512,699	-	-	512,699
Operating Transfers (Out)	(40,000)	-	-	(40,000)
Operating Transfers In	60,083	138,000	-	198,083
TOTAL OTHER FINANCING SOURCES (USES)	572,782	98,000	-	670,782
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	29,245	(31,304)	(335)	(2,394)
Fund Balance at Beginning of Year	150,487	90,780	42,480	283,747
FUND BALANCE AT END OF YEAR	\$ 179,732	\$ 59,476	\$ 42,145	\$ 281,353

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, 2017

	Net changes in fund balance - total governmental funds	\$ (2,394)
	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.	(103,192)
	Purchases of capital assets is capitalized and not an expense in the SOA	67,972
	Contributions to the pension plan in the current fiscal year are not included in the SOA	23,168
	Repayment of debt principal is an expenditure in the funds but is not an expense in	
	in the SOA	
	Certain property tax revenues are deferred in the funds.	115,000
	Decrease in compensated absences long term liability	4,281
		5,803
	Change in net assets of governmental activities - statement of activities	110,638

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
 STATEMENT OF NET POSITION
 PROPRIETARY FUND
 JUNE 30, 2017

BUSINESS-TYPE ACTIVITIES -

SYSTEM FUND
 2017

	ASSETS:
	Current Assets:
	Cash
	Accounts Receivable (Net of Allowance for Uncollectibles)
	Prepaid Expenses
	Capital Assets
	Land
	Furniture and Equipment
	Distribution System
	Wells and Tanks
	Lake and Treatment Plant
	Sewer and Treatment Plant
	Construction in Progress
	Less Accumulated Depreciation
	Total Assets
	463,675
\$	
	1,717,404
	12,522
	1,717,404
	4,037,798
	787,260
	1,610,006
	3,288,573
	138,891
	(7,652,094)
	4,874,712
	137,751
	137,751
	Total Deferred Outflow of Resources
	Deferred Outflow Related to TMRs
	DEFERRED OUTFLOWS OF RESOURCES
	LIABILITIES:
	Current Liabilities:
	Accounts Payable
	Accrued Compensated Absences
	Due to Other Funds
	Refundable Deposits
	Total Current Liabilities
	Non-Current Liabilities:
	Long-Term Liabilities, Less Current Portion:
	Net Pension Liability
	Total Non-Current Liabilities
	Total Liabilities
	DEFERRED INFLOWS OF RESOURCES
	Deferred Inflow Related to TMRs
	Total Deferred Inflow of Resources
	NET POSITION:
	Invested in Capital Assets, Net of Debt
	Unrestricted
	Total Net Position
\$	4,335,265

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

BUSINESS-TYPE ACTIVITIES -

<u>2017</u>	
4,360,558	OPERATING REVENUES:
138,891	Charges for Services
49,978	Grants
4,549,427	Miscellaneous
	TOTAL OPERATING REVENUES
	214,210
	Administration
	Water Treatment and Production
	Water Distribution
	Sewer Collection
	Sewer Treatment
	Electric Department
	Depreciation
3,596,901	TOTAL OPERATING EXPENSES
	Operating Income
952,526	NON-OPERATING REVENUES (EXPENSES):
	Interest Expense
(959)	TOTAL NON-OPERATING REVENUES (EXPENSES)
	Income Before Other Financing Sources (Uses)
	OTHER FINANCING SOURCES (USES):
	Transfers In Lieu of Taxes
	Transfer In
-	Transfers (Out)
(670,782)	TOTAL OTHER FINANCING SOURCES (USES)
	Change in Net Position
280,785	Net Position at Beginning of Year
4,054,480	NET POSITION AT END OF YEAR
4,335,265	\$

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, 2017

BUSINESS-TYPE ACTIVITIES -

<u>2017</u>	
CASH FLOWS FROM OPERATING ACTIVITIES	\$ 4,384,781
Receipts from customers and users	138,891
Receipts from grants	(2,835,218)
Payments to suppliers	(496,635)
Payments for wages and benefits	1,191,819
Net Cash Provided by Operating Activities	<u>1,191,819</u>
CASH FLOWS FROM INVESTING ACTIVITIES	<u>(163,847)</u>
Acquisition of property, plant and equipment	(163,847)
Net Cash Used From Investing Activities	<u>(163,847)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>(512,699)</u>
Transfers in Lieu of Taxes	(512,699)
Operating transfers - in (out)	(158,083)
Net Cash Used From Noncapital Financing Activities	<u>(670,782)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	-
Proceeds from long-term debt	-
Debt services	(959)
Net Cash Used From Capital and Related Financing Activities	<u>(959)</u>
Net Increase in Cash	356,231
Cash at Beginning of the Year	107,444
Cash at End of the Year	<u>\$ 463,675</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Net operating income	\$ 952,526
Depreciation expense	241,537
(Increase)/decrease in receivables	(32,307)
(Increase)/decrease in prepaid expenses	1,075
Increase/(decrease) in payables	77
Increase/(decrease) in customer deposits	6,552
Increase/(decrease) in pension liability	14,567
Increase/(decrease) in compensated absences	7,792
Net Cash Provided by Operating Activities	<u>\$ 1,191,819</u>

The accompanying notes are an integral part of this statement.

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*.

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, 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.

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 AND INVESTMENTS**
- 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.
- Investments are reported at fair value which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. The composition of cash deposits and investments, and fair values are presented in Note C.
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.

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 are 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

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. 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 quasi-external transactions and 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 operating 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 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.

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.

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, 2017 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 instrumentals; 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, 2017 are as shown below:

Fair Value	Maturity	Certificates of Deposit
\$ 6,667	180 days	
<u>\$ 6,667</u>		

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:

- 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.
- 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.
- Concentration of Credit Risk**
 At year end, the City was not exposed to custodial credit risk.
- 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.
- 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.
- 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, 2017

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, 2016	Additions	Retirement	Balance June 30, 2017
Land	\$ 453,753	\$ -	\$ -	\$ 453,753
Buildings and Improvements	3,195,659	-	-	3,195,659
Machinery & Equipment	1,280,089	67,972	-	1,348,061
Capital Lease	144,629	-	-	144,629
Less Accumulated Depreciation	(3,378,856)	(103,192)	-	(3,482,048)
Governmental Activities Capital Assets, Net	\$ 1,695,274	\$(35,220)	\$ -	\$ 1,660,054

Depreciation was charged to departments as follows:

City Council	Total
\$ 3,696	\$ 103,192
Administrative Department	6,437
Street Department	4,446
Sanitation Department	2,085
Fire Department	16,668
Police Department	12,674
Library Department	12,394
Multi-Purpose Center	17,875
Parks and Recreation	25,899
El Camino Information Center	1,018

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017:

	Balance	July 1, 2016	Additions	Retirement	Balance
	June 30, 2017			June 30, 2017	
Plant & Equipment	\$ 1,692,448	\$ 24,956	\$ -	\$ -	\$ 1,717,404
Distribution System	4,037,796	-	-	-	4,037,796
Well & Tanks	787,260	-	-	-	787,260
Lake & Treatment Plant	1,610,006	-	-	-	1,610,006
Sewage Treatment Plant	3,288,573	-	-	-	3,288,573
Accumulated Depreciation	(7,410,557)	(241,537)	-	-	(7,652,094)
Construction in Progress	-	138,891	-	-	138,891
Land	12,522	-	-	-	12,522
Total	\$ 4,018,048	\$ (77,690)	\$ -	\$ -	\$ 3,940,358

NOTE G – DEFINED BENEFIT PENSION PLANS

1.	Plan Description
<p>The City of San Augustine participates as one of 872 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.</p>	<p>All eligible employees of the City are required to participate in TMRS.</p> <p>Benefits Provided</p>
<p>2.</p>	<p>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.</p> <p>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.</p> <p>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:</p>

Plan Year 2016	Plan Year 2017
Employee deposit rate	7.0%
Matching ratio (city to employee)	2 to 1
Years required for vesting	10
Service retirement eligibility (expressed as age/years of service)	60/10,0/25
Updated service credit	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating

Employees covered by benefit terms.

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

Inactive employees or beneficiaries currently receiving benefits	19
Inactive employees entitled to but not yet receiving benefits	19
Active employees	30
Total	<u>68</u>

3.

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year ending June 30, 2017. Contribution rates for the City were 10.19% and 11.02% in the calendar years 2016 and 2017. The City's contributions to TMRS for the year ended June 30, 2017, were \$121,403, and were equal to the required contributions.

4.

Net Pension Liability

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

Actuarial assumptions:

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

Inflation	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.

Actuarial assumptions used in the December 31, 2016, valuation were based on results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
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%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100%	

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, 2017

Changes in the Net Pension Liability

	(a)	(b)	(a)-(b)
Balance at 12/31/2015	\$4,697,352	\$4,161,540	\$535,812
Changes for the year:			
Service cost	162,835		162,835
Interest	316,556		316,556
Change in benefit terms	-		-
Difference between expected and actual experience	58,457		58,457
Changes of assumptions			-
Contributions – employer	110,489	110,489	(110,489)
Contributions – employee	75,939	75,939	(75,939)
Net investment income	281,251	281,251	(281,251)
Benefit Payments, including refunds of			
Employee contributions	(178,109)	(178,109)	-
Administrative expenses		(3,176)	3,176
Other Changes		(171)	171
Net changes	359,739	286,223	73,516
Balance at 12/31/2016	\$5,057,091	\$4,447,763	\$ 609,328

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:

City's net pension liability	\$1,331,848	\$609,328	\$20,103
	1% Decrease in Discount Rate (5.75%)	Discount Rate 6.75%	1% Increase in Discount Rate (7.75%)

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.tms.com.

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

For the year ended June 30, 2017, the City recognized pension expense of \$112,746.

At June 30, 2017, 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	\$ 39,600	\$ 93,473
Changes in actuarial assumptions	18,500	-
Difference between projected and actual investment earnings	190,527	-
Contributions subsequent to the measurement date	64,165	-
Total	<u>\$312,792</u>	<u>\$93,473</u>

\$64,165 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, 2017. 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	
\$13,256	2017
83,359	2018
58,610	2019
(71)	2020
<u>\$155,154</u>	Total

CITY OF SAN AUGUSTINE, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017

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, 2017 and 2016, \$210,645 and \$208,656 of unpaid vacation leave, sick leave, and "comp time" liability has been recorded. Changes in the accumulated liabilities are shown below:

Proprietary General Fund	Fund Long-Term	Balance at July 1, 2016	Net Change	Balance at June 30, 2017
		\$ 67,375	7,792	\$ 75,167
		\$ 141,281	(5,803)	\$ 135,478

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, 2017:

Debt	Outstanding July 1, 2016	Additions	Reductions	Outstanding June 30, 2017
Line of Credit	\$ -	\$ 95,000	\$ 95,000	\$ -
Compensated Absences	67,375	7,792	-	75,167
Net Pension Liability	230,399	37,705	-	268,104
Total Proprietary Fund Debt	\$ 297,774	\$ 140,497	\$ 95,000	\$ 343,271

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – LONG-TERM GOVERNMENTAL ACTIVITIES

The following is summary of the City's governmental activities long-term debt transactions for the year ended June 30, 2017:

Debt	Outstanding	July 1, 2016	Additions	Reductions	June 30, 2017	Debt	Outstanding	Due In
Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	One Year
Certificates of Obligation	\$ 1,440,000	\$ -	\$ -	\$ 65,000	\$ 1,375,000	\$ 65,000	\$ 65,000	
Bonds	205,000	-	-	50,000	155,000	50,000	50,000	
Compensated Absences	141,281	-	-	5,803	135,478	135,478		
Net Pension Liability	305,413	35,821	-	-	341,234			
Total Long-Term Debt	\$ 2,091,694	\$ 35,821	\$ 120,803	\$ 2,006,712	\$ 115,000			

Debt outstanding as of June 30, 2017, consisted of the following:

Certificate of Obligation	Interest	Maturity	Original	Outstanding
Rate	Date	Amount	Amount	Amount
2011 Series	2.32%	2022	\$ 500,000	\$ 355,000
2010 Series	0%	2040	1,050,000	1,020,000
General Obligation Refunding Bonds Series 2011	2.12%	2020	600,000	155,000
Total Bonds and Certificates of Obligation				\$ 1,530,000

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.

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 2016-2017. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves.

NOTE L--RISK MANAGEMENT

The contract between the City and the licensed insurer is renewable in January, 2017, 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, 2016, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

NOTE K--HEALTH CARE COVERAGE

During the year June 30, 2017 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 City was in compliance with all long-term debt covenants at June 30, 2017.

Year Ending	Principal	Interest
2018	\$ 115,000	\$11,522
2019	120,000	9,070
2020	125,000	6,502
2021	130,000	3,828
2022	135,000	1,972
2023-2027	250,000	
2028-2032	250,000	
2033-2037	250,000	
2038-2040	155,000	
Total	<u>\$1,530,000</u>	<u>\$32,894</u>

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017, 2018 and 2019, of \$4,637, \$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, 2017 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, 2017, consisted of the following:

Due to Fund	Due From Fund	Purpose
General	System	Cash deposit correction
		Amount
		\$35,106

2. Transfers To and From Other Funds

Transfers to and from other funds for the year ended June 30, 2017, consisted of the following:

Transfers From	Transfers To	Amount	Reason
System Fund	General Fund	\$20,083	Operating Transfers
System Fund	General Fund	512,699	In Lieu of Taxes
System Fund	Debt Service	138,000	Debt Service
Debt Service	General Fund	40,000	Capital Disbursements
		\$710,782	

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 is as follows:

	Water and Wastewater Department	Electric Department	Total
Operating revenues	\$ 1,640,549	\$ 2,908,878	\$ 4,549,427
Net operating income before depreciation	\$ 573,581	\$ 620,482	\$ 1,194,063

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, 2017**

VARIANCE FROM FINAL BUDGET FAVORABLE (UNFAVORABLE)	BUDGET		ACTUAL
	ORIGINAL	FINAL	
	\$ 355,500	\$ 355,500	\$ 378,386
Property Taxes	189,000	189,000	196,314
Garbage Collection	503,600	503,600	468,463
Other Local Taxes and Permits	52,675	52,675	52,474
Fines and Parking	-	-	28
Interest Income	46,873	46,873	53,199
Miscellaneous	-	-	221,296
Donations and Grants	1,147,648	1,147,648	1,370,160
TOTAL REVENUES	1,684,326	1,684,326	1,913,697
EXPENDITURES:			
City Council	40,160	40,160	30,650
Administrative Department	244,608	244,608	237,990
Street Department	136,621	136,621	169,372
Sanitation Department	150,790	150,790	145,792
Fire Department	126,116	126,116	127,209
Police Department	590,206	590,206	543,928
Corporation Court	96,368	96,368	83,113
Municipal Buildings	20,090	20,090	9,796
Library Department	149,054	149,054	158,187
Multi-Purpose Center	8,617	8,617	6,668
Mission Delores	55,000	55,000	59,345
El Camino Information Center	-	-	261
Main Street Program	53,825	53,825	92,707
Tourism Center	12,871	12,871	9,543
Miscellaneous	-	-	2,860
Capital Outlay	-	-	80,433
Grants	-	-	155,843
TOTAL EXPENDITURES	1,684,326	1,684,326	1,913,697
Excess (Deficiency) of Revenues Over (Under) Expenditures	(536,678)	(536,678)	(543,537)
OTHER FINANCING SOURCES (USES):			
Payments in Lieu of Taxes	536,678	536,678	512,699
Operating Transfers In (Out)	-	-	60,083
TOTAL OTHER FINANCING SOURCES (USES)	536,678	536,678	572,782
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	-	-	29,245
Fund Balance at Beginning of Year	150,487	150,487	150,487
FUND BALANCE AT END OF YEAR	\$ 150,487	\$ 150,487	\$ 179,732

The accompanying notes are an integral part of this statement.

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

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

Notes to Schedule:

N/A

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

	2017	2016	2015
Actuarially determined contributions	\$ 121,403	\$ 114,066	\$ 120,393
Contributions in relation to the actuarially determined contribution	121,403	114,066	120,393
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 1,143,961	\$ 1,063,213	\$ 1,004,127
Contributions as a percentage of covered employee payroll	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
- 29 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
- 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
CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)	BUDGETED AMOUNTS		REVENUES:
	FINAL	ORIGINAL	
			Interest Income
	\$ 65	\$ -	Total Revenues
	\$ 65	\$ -	EXPENDITURES:
			Current:
			Miscellaneous
	400	-	Total Payments on Long-Term Debt
	400	-	Other Financing Sources and (Uses)
			Operating Transfer Out
			Total Other Financing Sources and (Uses)
	(335)	-	Net Change in Fund Balance
	42,480	42,480	Fund Balance - September 1 (Beginning)
	\$ 42,145	\$ 42,480	Fund Balance - August 31 (Ending)

CITY OF SAN AUGUSTINE, TEXAS
SCHEDULE OF DEPARTMENTAL NET OPERATING INCOME
(BEFORE DEPRECIATION) - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	ELECTRIC DEPARTMENT	WATER & SEWER DEPARTMENT	TOTAL
Operating Revenues			
Electric	2,908,878		\$ 2,908,878
Water		939,616	\$ 939,616
Sewer		417,793	417,793
Tapping Fees		4,808	4,808
Penalties		67,123	67,123
Other Charges for Services		22,341	22,341
Grants		138,891	138,891
Miscellaneous		49,977	49,977
Total Operating Revenues	<u>2,908,878</u>	<u>1,640,549</u>	<u>4,549,427</u>
Operating Expenses			
Administration	107,105	107,105	214,210
Water production & treatment		444,165	444,165
Water distribution		192,483	192,483
Sewer collection		102,527	102,527
Sewer treatment		220,688	220,688
Electric department	2,181,291		2,181,291
Total Operating Expense (Excluding Depreciation)	<u>2,288,396</u>	<u>1,066,968</u>	<u>3,355,364</u>
Net Operating Income Before Depreciation	<u>\$ 620,482</u>	<u>\$ 573,581</u>	<u>\$ 1,194,063</u>

CITY OF SAN AUGUSTINE, TEXAS
COMPARATIVE SCHEDULE OF OPERATING EXPENSES - PROPRIETARY
FOR THE YEAR ENDED JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016

2017	2016	
\$ 110,574	\$ 106,321	Administration
7,561	7,344	Salaries and wages
44,217	45,428	Supplies
186	35	Contractual
51,672	40,254	Maintenance - equipment
214,210	199,382	Total
102,831	74,932	Water Treatment and Production
164,239	153,215	Salaries and wages
78,006	86,483	Supplies
12,895	9,224	Contractual
42,540	27,032	Maintenance - buildings & structures
43,654	26,185	Maintenance - equipment
444,165	377,071	Total
47,108	44,805	Water distribution
33,404	32,230	Salaries and wages
55,480	56,167	Supplies
23,025	12,803	Contractual
10,110	5,426	Maintenance - buildings & structures
23,356	20,108	Maintenance - equipment
192,483	171,539	Total
43,835	40,825	Sewer Collection
7,338	1,891	Salaries and wages
8,348	8,075	Supplies
15,260	28,503	Contractual
4,657	4,084	Maintenance - buildings & structures
23,089	19,437	Maintenance - equipment
102,527	102,815	Total

		2017		2016	
Sewer Treatment					
Salaries		70,432	\$	67,187	\$
Supplies		12,863		9,731	
Contractual		81,185		58,805	
Maintenance - buildings & structures		-		-	
Maintenance - equipment		26,042		26,599	
Sundry charges		30,166		25,211	
Total		<u>220,688</u>		<u>187,533</u>	
Electric Department					
Salaries and wages		144,214		138,787	
Supplies		84,303		44,906	
Contractual		1,865,335		2,194,353	
Maintenance - equipment		31,893		22,439	
Sundry charges		55,546		47,271	
Total		<u>2,181,291</u>		<u>2,447,756</u>	
Depreciation		241,537		261,292	
Total Operating Expenses		<u>\$ 3,596,901</u>		<u>\$ 3,747,388</u>	

CITY OF SAN AUGUSTINE, TEXAS
COMPARATIVE SCHEDULE OF CURRENT EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016

2017	2016	
\$ 8,300	\$ 8,400	City Council
1,166	1,402	Mayor and council fees and wages
19,781	21,297	Supplies
815	363	Contractual
588	1,556	Maintenance - equipment
30,650	33,018	Sundry charges
Total		
Administrative Department		
122,597	118,278	Salaries and wages
6,177	6,791	Supplies
63,277	56,005	Contractual
2,176	170	Maintenance - equipment
43,763	40,576	Sundry charges
Total		
237,990	221,820	Street Department
48,644	43,197	Salaries and wages
18,019	10,718	Supplies
29,730	14,164	Contractual
31,417	26,812	Maintenance - buildings & structures
12,034	19,926	Maintenance - equipment
29,528	25,623	Sundry charges
Total		
169,372	140,440	Sanitation Department
-	-	Salaries and wages
-	-	Supplies
145,792	136,528	Contractual
-	-	Maintenance - buildings & structures
-	-	Maintenance - equipment
-	-	Sundry charges
Total		
145,792	136,528	Fire Department
70,944	68,534	Salaries and wages
9,593	6,604	Supplies
8,952	9,048	Contractual
0	90	Maintenance - buildings & structures
20,719	10,877	Maintenance - equipment
17,001	16,276	Sundry charges
Total		
127,209	111,429	Police Department
343,094	335,272	Salaries and wages
18,876	21,646	Supplies
33,051	32,704	Contractual
736	362	Maintenance - buildings and structures
10,308	8,983	Maintenance - equipment
137,863	125,561	Sundry charges
Total		
543,928	524,528	

2017	2016
\$ 38,961	\$ 37,636
774	1,174
29,132	33,403
14,246	13,439
-	-
83,113	85,652
Total	
Municipal Buildings	
3,796	9,301
Supplies and wages	
Supplies	1,360
Contractual	2,666
Maintenance - buildings & structures	1,567
Sundry charges	1,709
9,796	16,603
Total	
Library Department	
96,876	79,513
Salaries and wages	
Supplies	2,189
Contractual	20,399
Maintenance - buildings & structures	3,564
Maintenance - equipment	699
Sundry charges	34,460
158,187	130,108
Total	
Multi-Purpose Center	
1,050	-
Salaries and wages	
Supplies	25
Contractual	4,154
Maintenance - buildings & structures	851
Sundry charges	588
6,668	6,156
Total	
Mission Delores	
-	17,994
Salaries and wages	
Supplies	302
Contractual	13,949
Maintenance - buildings & structures	7,331
Maintenance - equipment	-
Sundry	1,725
59,345	41,301
Total	
El Camino Information Center	
0	10,451
Salaries and wages	
Supplies	74
Contractual	1,826
Maintenance - buildings and grounds	741
Maintenance - equipment	-
Sundry	1,564
261	14,656
Total	

CITY OF SAN AUGUSTINE, TEXAS
COMPARATIVE SCHEDULE OF CURRENT EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016

	2017	2016
Main Street Program		
Salaries and wages	32,123	31,182
Supplies	457	419
Contractual	45,738	4,651
Maintenance - buildings and grounds	-	-
Maintenance - equipment	-	-
Sundry	14,389	13,484
Total	92,707	49,736
Tourism Center		
Salaries and wages	2,400	2,540
Supplies	38	245
Contractual	4,898	5,610
Maintenance - buildings and grounds	1,619	2,495
Maintenance - equipment	-	-
Sundry	588	276
Total	9,543	11,166
R.V. Park		
Salaries and wages	-	-
Supplies	-	85
Contractual	-	19,465
Maintenance - buildings and grounds	-	29
Maintenance - equipment	-	-
Sundry	-	276
Total	-	19,855
Departmental Total Expenditures	\$ 1,674,561	\$ 1,542,996

CITY OF SAN AUGUSTINE, TEXAS
 OTHER DATA
 FOR THE YEAR ENDED JUNE 30, 2017
 UNAUDITED

Cash balance of General Obligation debt service funds:

Interest and Sinking Fund Cash \$ 59,476

Assessed valuation for 2016 tax year: \$60,954,000

Ad valorem tax rate for 2016 tax year: \$0.653401/\$100 valuation

2016 tax year collections, including penalty and interest: \$378,386

Insurance Coverage	Description of Coverage	Amount
Texas Municipal League	Automobile liability	\$ 1,000,000
Texas Municipal League	Real and personal property	\$ 10,486,555
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, 779 sewer connections and 1,112 electricity connections at June 30, 2017.

REPORT ON INTERNAL CONTROLS AND ON COMPLIANCE

INDEPENDENT AUDITOR'S 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, 2017, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 13, 2017.

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.

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 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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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

Tiller and Company
A Professional Corporation of
Certified Public Accountants

San Augustine, Texas
December 13, 2017