

CITY OF SAN AUGUSTINE, TEXAS
ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED JUNE 30, 2019

CITY OF SAN AUGUSTINE, TEXAS

Annual Financial Report for the
Year Ended June 30, 2019

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FINANCIAL SECTION

TILLER AND COMPANY

A PROFESSIONAL CORPORATION OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Mayor and City Council
City of San Augustine, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of San Augustine, Texas (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of San Augustine, Texas as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes A and G, to the financial statements, the City adopted provisions of Government Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of June 30, 2019. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

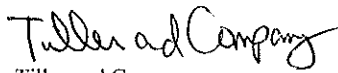
The schedules referred to above are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2019 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,


Tuller and Company
A Professional Corporation of
Certified Public Accountants

San Augustine, Texas
December 1, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of San Augustine, Texas' annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2019. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total combined assets and deferred outflows exceeded its liabilities and deferred inflows (net position) by \$5,364,408 at June 30, 2019. Included in this amount is \$375,192 in unrestricted net position.
- During the year, the City's governmental activities expenses were \$244,820 less than the \$2,081,904 generated in taxes and other revenues for governmental activities.
- The total cost of the City's governmental activities increased by \$107,248 from last year.
- The City transferred \$686,197 from the System Fund (water, sewer and electricity) to the General and Debt Service Funds as payments in lieu of taxes, debt service and other purposes.
- The general fund reported a fund balance this year of \$376,597, an increase of \$239,315 from last year.

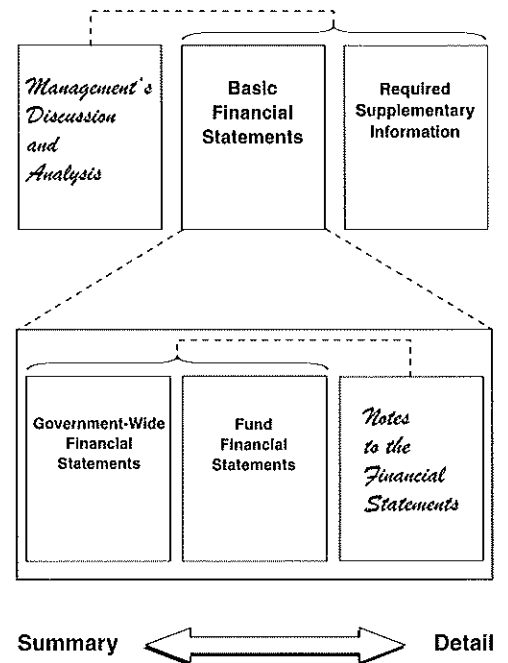
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

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

The City has the following kinds of funds:

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$5,364,408 at June 30, 2019. (See Table A-1).

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

	June 30, 2019			June 30, 2018		
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental Activities	Business-type Activities	Total Primary Government
Current assets:						
Cash	\$ 434	\$ 165	\$ 599	\$ 191	\$ 260	\$ 451
Property taxes receivable	213	-	213	222	-	222
Accounts receivable	42	475	517	41	939	980
Internal balances	37	(37)	-	36	(36)	-
Prepaid expense	10	9	19	-	-	-
Total current assets:	736	612	1,348	490	1,163	1,653
Noncurrent assets:						
Capital assets	5,187	12,883	18,070	5,187	12,596	17,783
Less accumulated depreciation	(3,684)	(8,155)	(11,839)	(3,589)	(7,889)	(11,478)
Total Capital assets	1,503	4,728	6,231	1,598	4,707	6,305
Net pension asset	-	-	-	34	24	58
Total noncurrent assets	1,503	4,728	6,231	1,632	4,731	6,363
Total Assets	2,239	5,340	7,579	2,122	5,894	8,016
Deferred Outflow of Resources	308	197	505	126	91	217
Current liabilities:						
Accounts payable	21	50	71	13	59	72
Refundable deposits	-	222	222	-	217	217
Current portion of long-term debt	125	28	153	120	-	120
Total current liabilities	146	300	446	133	276	409
Long-term liabilities:						
Long-term debt	1,613	312	1,925	1,485	113	1,598
Total Liabilities	1,759	612	2,371	1,618	389	2,007
Deferred Inflow of Resources	212	136	348	297	215	512
Net Position:						
Invested in capital assets	208	4,656	4,864	183	4,707	4,890
Restricted for debt service	110	-	110	101	-	101
Restricted for capital projects	16	-	16	16	-	16
Unrestricted	242	133	375	31	674	705
Total Net Position	\$ 576	\$ 4,789	\$ 5,365	\$ 331	\$ 5,381	\$ 5,712

The City has \$375,192 in unrestricted net position available to fund the programs of the City next year.

Changes in net position. The City's total revenues were \$5,958,888. A significant portion, 76% of the City's revenue comes from charges for services. (See Figure A-3.) 18% comes from taxes, and 6% comes from other revenues. The total cost of all programs and services was \$6,306,254; 71% of these costs are for water and sewer and electrical services.

Government Wide Activities

- Property tax rate decreased to \$0.633301 from \$0.641454 per \$100 valuation.

**Figure A-3 City
Sources of Revenue for Fiscal Year 2019**

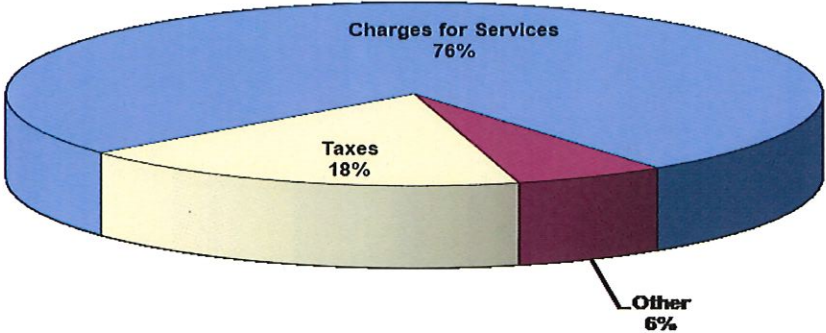


Table A-2
Changes in City of San Augustine, Texas' Net Position
(In Thousands Dollars)

	June 30, 2019			June 30, 2018		
	Governmental Activities	Business-type Activities	Total Primary Government	Governmental Activities	Business-type Activities	Total Primary Government
Program Revenues:						
Charges for Services	\$ 207	\$ 4,341	\$ 4,548	\$ 206	\$ 4,214	\$ 4,420
Capital Grants and Contributions	39	107	146	30	970	1,000
General Revenues:						
Property Taxes	405	-	405	399	-	399
Sales and Other Taxes	673	-	673	507	-	507
Other	72	116	188	147	48	195
Totals	1,396	4,564	5,960	1,289	5,232	6,521
Transfers	686	(686)	-	555	(555)	-
Total Revenues	2,082	3,878	5,960	1,844	4,677	6,521
Business-Type Activities Expenses:						
Water and Sewer	-	1,533	1,533	-	1,353	1,353
Electric	-	2,937	2,937	-	2,245	2,245
Governmental-Type Activities Expenses:						
General Government	440	-	440	395	-	395
Public Safety	821	-	821	733	-	733
Public Works	311	-	311	339	-	339
Parks, Recreation and Culture	256	-	256	251	-	251
Interest and Fiscal Agent Fees	9	-	9	12	-	12
Total Expenses	1,837	4,470	6,307	1,730	3,598	5,328
Increase (Decrease) in Net Position	\$ 245	\$ (592)	\$ (347)	\$ 114	\$ 1,079	\$ 1,193

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 \$1.8 million.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$405 thousand.
- Some of the governmental activities which were paid by those who directly benefited from the programs was \$207 thousand.
- Grants and contributions amounted to \$ 39 thousand.

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

	Total Cost of Services			Net Cost of Services		
	<u>2019</u>	<u>2018</u>	<u>% Change</u>	<u>2019</u>	<u>2018</u>	<u>% Change</u>
General government	\$440	\$395	11%	\$440	\$395	11%
Public safety	821	733	12%	798	719	11%
Public works	311	339	(8)%	93	121	(23)%
Parks, recreation and culture	256	251	2%	251	247	2%

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types increased \$134,798 due primarily to increases in ad valorem and sales taxes from the prior year. Revenues from business-type activities revenues increased by \$193,637, due primarily to increases in changing power included in minimum charges. There were no fee increases per se during the year, but we were able to cut some losses by re-writing our policy for handling wasteful water leaks by customers.

General Fund Budgetary Highlights

The budget was amended one time. For 2019, actual revenues in excess of expenditures before transfers were above the original budgeted amounts by \$299,315. Revenues exceeded the budgeted amounts by \$262,868 while expenditures were less than budgeted amounts by \$266,396.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the City had invested \$18,070,494 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.)

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

	<u>2019</u>	<u>2018</u>	Total Percentage Change <u>2019-2018</u>
Land	\$466	\$466	-
Buildings and improvements	14,207	13,190	8%
Vehicles and equipment	3,397	3,255	4%
Construction in progress	-	872	(100)%
Totals at historical cost	<u>18,070</u>	<u>17,783</u>	<u>2%</u>
Total accumulated depreciation	<u>11,839</u>	<u>11,478</u>	<u>3%</u>
Net capital assets	<u>\$6,231</u>	<u>\$6,305</u>	<u>(1)%</u>

Long Term Debt

At year-end the City had \$2,078 thousand in certificates of obligation, compensated absences payable, pension and OPEB liabilities and notes outstanding as shown in Table A-5.

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

	<u>2019</u>	<u>2018</u>	Total Percentage Change <u>2019-2018</u>
Compensated Absences	\$ 246	\$ 214	15%
Certificates of Obligation	1,240	1,310	(5)%
Bonds	55	105	(48)%
Notes Payable	73	-	100%
Net Pension and OPEB Liability	464	31	1,397%
Total Long-Term Debt	<u>\$2,078</u>	<u>\$1,660</u>	<u>25%</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The budget year ending on June 30, 2019 was a good year for San Augustine despite the weather disaster which befell the City on April 24, 2019. As previously noted, revenue was up, expenses were down and taxes rates were actually lowered although the last was accomplished as a function of our budget cycle rather than a decision to lower the tax rate which is already very low in San Augustine City and County.

One reason we saw a net increase in revenue was because of increased consumption. Our rate structure, predominately in water and sewer is based on consumption which is a problem for the obvious reason that the City counts on funding most activity with variable costs rather than assigning fees based on fixed cost for provision of services (availability-based fee). As many residents who bother to stay informed of City Government know, the Council recently met to enact a minimal raise in the base rate for water and sewer. This was done after the presentation of a rate study sanctioned by state agencies which put a light on our method of budgeting for our physical plants. A move by management and the Council is underway to move the City to a fixed-cost billing structure in lieu of a variable-cost based system to secure operations of the water and sewer systems which are aging, and in need of remediation. Current efforts to secure grant funding will be undermined by an inadequate rate structure to service debt and maintain facilities into the future should consumption or more simply the meter count were to decline.

Correctly pricing individual utility services will ultimately allow us to reduce consumption costs for power, water and sewer. This has not happened through the end of the 2018-2019 cycle, but the shift has begun for subsequent years, and there will surely be additional studies over the next five to ten years to properly align our income and revenues for sustainable utilities.

A re-leveling of utility costs may previously have been possible with no increase in rates, but the chances of that were firmly dispatched in April by the afore mentioned tornado. Prior to the storm the City was poised to put a water and sewer reserve in place entirely from excess funds recaptured from an uncollected grant related to a project completed last year at the water plant. Nearly all reserve cash that we were holding in addition to those surplus funds were required to replace the municipal power grid which was about 40% razed in the tornado. Restoration of the power to City customers was accomplished without bankrupting San Augustine only by a monumental effort on the part of our Electrical Department to coordinate the efforts of hundreds of contract linemen and the City's force account labor over a four-day period after the event. Our Lineman Supervisor, Robert Lakey, is largely to thank for this. The City also owes a debt of gratitude to our own Deep East Texas Electrical Cooperative as well as the City of Hemphill for donating no-cost crews to help pursue the repairs.

Although the town did not meet federal minimums for FEMA assistance, the Sabine River Authority, the Texas Bank & Trust as well as many citizens graciously donated funds to help the City offset operational losses from downed meters. The Texas Department of Transportation assisted by removing approximately \$2MM worth of roadside debris which would otherwise still be here in town.

Despite the setback from the storm, the City has remained in control of operational costs, and has not required the use of any bank credit to make expenses. We are generally positioned to grow our financial reserves back over the next few years. This is aided by the base rate increase in water and sewer as well help from all City employees to control expenditures day to day. Almost all of the business and residential customers lost should be back in operation within the next year. A further source of good news is the addition of a new business, O'Reilly Auto Parts, which should open in San Augustine next year as well as addition of a new cell tower bringing at least one new major wireless carrier, T-Mobile, to town. The outlook for San Augustine is good.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF SAN AUGUSTINE, TEXAS
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 434,010	\$ 165,480	\$ 599,490
Receivables (Net of Allowance for Uncollectible, Where Applicable):			
Property Taxes	213,015	-	213,015
Accounts	41,449	475,318	516,767
Internal Balances	37,468	(37,468)	-
Prepaid Expenses	10,352	8,954	19,306
Capital Assets:			
Land	453,753	12,522	466,275
Buildings and Improvements	957,159	-	957,159
Furniture & Equipment	92,196	299,261	391,457
Distribution System	-	452,826	452,826
Wells and Tanks	-	1,467,026	1,467,026
Lake and Treatment Plant	-	462,080	462,080
Sewer and Treatment Plant	-	2,034,293	2,034,293
Total Assets	2,239,402	5,340,292	7,579,694
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to OPEB	1,588	1,015	2,603
Deferred Outflow Related to TMRS	306,221	195,780	502,001
Total Deferred Outflow of Resources	307,809	196,795	504,604
LIABILITIES			
Accounts Payable	\$ 20,981	\$ 50,370	\$ 71,351
Refundable Deposits	-	222,338	222,338
Long-Term Liabilities:			
Portion Due in One Year:			
Note Payable		28,119	28,119
Bonds	55,000	-	55,000
Certificates of Obligation	70,000	-	70,000
Portion Due in More Than One Year:			
Compensated Absences	159,906	86,318	246,224
Note Payable		44,482	44,482
Certificates of Obligation	1,170,000	-	1,170,000
Net Pension Liability	228,623	146,168	374,791
Net OPEB Liability	54,431	34,800	89,231
Total Liabilities	1,758,941	612,595	2,371,536
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to OPEB	551	352	903
Deferred Inflow Related to TMRS	211,946	135,506	347,452
Total Deferred Inflow of Resources	212,497	135,858	348,355
NET POSITION			
Net investment in capital assets	208,108	4,655,407	4,863,515
Restricted For:			
Capital Projects	15,945	-	15,945
Debt Service	109,756	-	109,756
Unrestricted	241,964	133,228	375,192
Total Net Position	\$ 575,773	\$ 4,788,635	\$ 5,364,408

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENT ACTIVITIES:							
General government	\$ 440,031	\$	\$		(440,031)	\$	(440,031)
Public safety	821,046		23,000		(798,046)		(798,046)
Public works	310,931	\$ 201,984	15,546		(93,401)		(93,401)
Parks, recreation and culture	255,625	4,560			(251,065)		(251,065)
Interest and fiscal agent fees	9,451				(9,451)		(9,451)
TOTAL GOVERNMENTAL ACTIVITIES	1,837,084	206,544	38,546		(1,591,994)	\$	(1,591,994)
BUSINESS-TYPE ACTIVITIES:							
Water and sewer	1,532,567	1,474,091				(58,476)	(58,476)
Electric	2,936,603	2,866,324	106,620			36,341	36,341
TOTAL BUSINESS-TYPE ACTIVITIES	4,469,170	4,340,415	106,620			(22,135)	(22,135)
TOTAL PRIMARY GOVERNMENT	\$ 6,306,254	\$ 4,546,959	\$ -	\$ 145,166	(1,591,994)	(22,135)	(1,614,129)
General Revenues:							
Property Taxes, Levied for General Purposes					404,772	-	404,772
Sales and Other Taxes					673,481	-	673,481
Miscellaneous					72,364	116,146	188,510
Transfers, net					686,197	(686,197)	-
Total General Revenues and Transfers					1,836,814	(570,051)	1,266,763
Change in Net Position					244,820	(592,186)	(347,366)
Net Position - Beginning					330,953	5,380,821	5,711,774
Net Position - Ending					\$ 575,773	\$ 4,788,635	\$ 5,364,408

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL
ASSETS				
Cash	\$ 308,309	\$ 109,756	\$ 15,945	\$ 434,010
Receivables (Net of Allowance for Uncollectibles, Where Applicable):				
Property Taxes	213,015	-	-	213,015
Accounts	41,449	-	-	41,449
Prepaid expenditures	10,352			10,352
Due from Other Funds	37,468	-	-	37,468
Total Assets	\$ 610,593	\$ 109,756	\$ 15,945	\$ 736,294
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts Payable	\$ 20,981	\$ -	\$ -	\$ 20,981
Total Liabilities	20,981	-	-	20,981
Deferred Inflow of Resources				
Unavailable Revenue - Taxes	213,015	-	-	213,015
Fund Balance:				
Fund Balance:				
Nonspendable - prepaid items	10,352			10,352
Restricted				
Debt Service	-	109,756	-	109,756
Capital Projects	-	-	15,945	15,945
Unassigned	366,245	-	-	366,245
Total Fund Balance	376,597	109,756	15,945	502,298
Total Liabilities and Fund Balance	\$ 610,593	\$ 109,756	\$ 15,945	\$ 736,294

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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, 2019

Total fund balances - governmental funds balance sheet	\$	502,298
Amounts reported for governmental activities in the statement of net position ("SNP") are different because:		
Capital assets used in governmental activities are not reported in the funds.		1,503,108
Certain pension and OPEB contributions and changes in pension plan net position are reported as deferred outflows of resources in the statement of net position, but are reported as expenditures in the governmental funds		307,809
Net pension and OPEB liability is not due and payable in the current period and is not reported in the funds		(283,054)
Pension and OPEB related deferrals		(212,497)
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		213,015
Payables for compensated absences not reported in the funds		(159,906)
Payables for long-term debt are not reported in the funds.		<u>(1,295,000)</u>
Net position of governmental activities - statement of net position	\$	<u><u>575,773</u></u>

CITY OF SAN AUGUSTINE, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Property Taxes	\$ 413,440	\$ -	\$ -	\$ 413,440
Garbage Collection	201,984	-	-	201,984
Other Local Taxes and Permits	611,609	-	-	611,609
Fines and Parking	57,059	-	-	57,059
Interest Income	37	-	336	373
Miscellaneous	72,364	-	-	72,364
Donations and Grants	47,546	-	-	47,546
TOTAL REVENUES	1,404,039	-	336	1,404,375
EXPENDITURES:				
City Council	41,351	-	-	41,351
Administrative Department	283,430	-	-	283,430
Street Department	148,045	-	-	148,045
Sanitation Department	156,980	-	-	156,980
Fire Department	125,987	-	-	125,987
Police Department	583,337	-	-	583,337
Corporation Court	79,383	-	-	79,383
Municipal Buildings	9,060	-	-	9,060
Library Department	141,880	-	-	141,880
Multi-Purpose Center	18,163	-	-	18,163
Mission Delores	17,209	-	-	17,209
Main Street Program	55,253	-	-	55,253
Tourism Center	14,179	-	400	14,579
Miscellaneous	7,076	-	-	7,076
Capital Outlay	31,588	-	-	31,588
Debt Service:				
Principal Retirement	-	120,000	-	120,000
Interest and Fiscal Charges	-	9,451	-	9,451
TOTAL EXPENDITURES	1,712,921	129,451	400	1,842,772
Excess (Deficiency) of Revenues Over Expenditures	(308,882)	(129,451)	(64)	(438,397)
OTHER FINANCING SOURCES (USES):				
Payments in Lieu of Taxes	355,382	-	-	355,382
Transfers In	192,815	138,000	-	330,815
TOTAL OTHER FINANCING SOURCES (USES)	548,197	138,000	-	686,197
Change in Fund Balance	239,315	8,549	(64)	247,800
Fund Balance at Beginning of Year	137,282	101,207	16,009	254,498
FUND BALANCE AT END OF YEAR	\$ 376,597	\$ 109,756	\$ 15,945	\$ 502,298

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, 2019

Net changes in fund balance - total governmental funds	\$	247,800
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.		(94,969)
Contributions to the pension and OPEB plans in the current fiscal year are not included in the SOA		460
Repayment of debt principal is an expenditure in the funds but is not an expense in in the SOA		120,000
Certain property tax revenues are deferred in the funds.		(8,668)
Increase in compensated absences long term liability		<u>(19,803)</u>
Change in net position of governmental activities - statement of activities	\$	<u><u>244,820</u></u>

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2019

	BUSINESS-TYPE ACTIVITIES - SYSTEM FUND
	2019
ASSETS:	
Current Assets:	
Cash	\$ 165,481
Accounts Receivable (Net of Allowance for Uncollectibles)	475,318
Prepaid Expenses	8,954
Capital Assets	
Land	12,522
Furniture and Equipment	1,859,068
Distribution System	4,037,798
Wells and Tanks	1,804,016
Lake and Treatment Plant	1,881,131
Sewer and Treatment Plant	3,288,573
Less Accumulated Depreciation	(8,155,100)
Total Assets	5,377,761
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to OPEB	1,015
Deferred Outflow Related to TMRS	195,780
Total Deferred Outflow of Resources	196,795
 LIABILITIES:	
Current Liabilities:	
Accounts Payable	50,370
Accrued Compensated Absences	86,318
Due to Other Funds	37,468
Note payable - Current Portion	28,119
Refundable Deposits	222,338
Total Current Liabilities	424,613
Non-Current Liabilities:	
Long-Term Liabilities, Less Current Portion:	
Note Payable	44,482
Net Pension Liability	146,168
Net OPEB Liability	34,800
Total Non-Current Liabilities	225,450
Total Liabilities	650,063
 DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to OPEB	352
Deferred Inflow Related to TMRS	135,506
Total Deferred Inflow of Resources	135,858
 NET POSITION:	
Net investment in capital assets	4,655,407
Unrestricted	133,228
Total Net Position	\$ 4,788,635

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

	BUSINESS-TYPE ACTIVITIES - SYSTEM FUND <u>2019</u>
OPERATING REVENUES:	
Charges for Services	\$ 4,340,415
Miscellaneous	<u>116,146</u>
TOTAL OPERATING REVENUES	<u>4,456,561</u>
OPERATING EXPENSES:	
Administration	234,482
Water Treatment and Production	643,275
Water Distribution	214,952
Sewer Collection	120,670
Sewer Treatment	250,666
Electric Department	2,135,813
Depreciation	<u>265,885</u>
TOTAL OPERATING EXPENSES	<u>3,865,743</u>
Operating Income	<u>590,818</u>
NONOPERATING REVENUES (EXPENSES)	
Interest Expense	(1,712)
Grant revenues	<u>106,620</u>
Total Nonoperating revenues (expenses)	<u>104,908</u>
Income before transfers and extraordinary item	695,726
Transfers In Lieu of Taxes	(355,382)
Transfers (Out)	<u>(330,815)</u>
Income before extraordinary item	9,529
EXTRAORDINARY ITEM	
Tornado repair costs	<u>(601,715)</u>
Change in Net Position	<u>(592,186)</u>
Net Position at Beginning of Year	<u>5,380,821</u>
NET POSITION AT END OF YEAR	<u><u>\$ 4,788,635</u></u>

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, 2019

	BUSINESS-TYPE ACTIVITIES - SYSTEM FUND
	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 4,416,871
Receipts from other items	615,904
Payments to suppliers	(3,093,402)
Payments for wages and benefits	(531,008)
Net Cash Provided by Operating Activities	<u>1,408,365</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in Lieu of Taxes	(355,382)
Tornado disaster expenses	(601,715)
Transfers - in (out)	(329,405)
Net Cash Used From Noncapital Financing Activities	<u>(1,286,502)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal and interest paid	(15,330)
Note proceeds	86,219
Purchase of capital assets	(286,920)
Net Cash Used From Capital and Related Financing Activities	<u>(216,031)</u>
Net Decrease in Cash	(94,168)
Cash at Beginning of the Year	<u>259,649</u>
Cash at End of the Year	<u>\$ 165,481</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	165,481
Net operating income	\$ 590,818
Depreciation expense	265,885
(Increase)/ decrease in grant receivables	499,758
(Increase)/decrease in receivables	71,027
(Increase)/decrease in prepaid expenses	(8,954)
Increase/(decrease) in payables	(8,512)
Increase/(decrease) in customer deposits	5,429
Increase/(decrease) in pension and OPEB liability	(19,097)
Increase/(decrease) in compensated absences	12,011
Net Cash Provided by Operating Activities	<u>\$ 1,408,365</u>

The accompanying notes are an integral part of this statement.

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

The government reports the following major governmental funds:

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

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

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

The government reports the following major proprietary funds:

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

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 and OPEB plans 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 pension and OPEB expense and 3) actual pension and OPEB plan earnings in excess of the expected amounts included in determining pension and OPEB 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 position 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 and OPEB plans. These deferred inflows of resources are attributed to pension and OPEB expense over a total of five years. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than sixty days after the end of the City's fiscal year) under the modified accrual basis of accounting.

7. **CASH**

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

8. **SHORT-TERM INTERFUND RECEIVABLES/PAYABLES**

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 position. 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 is divided into three components:

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

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

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

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

15. **INTERFUND TRANSACTIONS**

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

All other inter-fund transactions except reimbursements are reported as transfers.

16. **PROPRIETARY FUNDS OPERATING AND NONOPERATING REVENUES AND EXPENSES**

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

17. FUND BALANCE POLICY

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

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

18. PENSIONS

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

19. OTHER POST-EMPLOYMENT BENEFITS

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE C – CASH AND INVESTMENTS

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

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

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

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

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

The City’s investments at June 30, 2019 are as shown below:

	<u>Maturity</u>	<u>Amortized Cost</u>
Certificates of Deposit	180 days	<u>\$ 6,740</u>
		<u>\$ 6,740</u>

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Analysis of Specific Deposit and Investment Risk

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2018	Additions	Retirement	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 453,753	\$ -	\$ -	\$ 453,753
Capital assets being depreciated:				
Buildings and Improvements	3,195,659	-	-	3,195,659
Machinery and Equipment	1,537,974	-	-	1,537,974
	4,733,633	-	-	4,733,633
Less accumulated depreciation:				
Buildings and Improvements	2,177,877	60,623	-	2,238,500
Machinery and Equipment	1,411,432	34,346	-	1,445,778
	3,589,309	94,969	-	3,684,278
Total capital assets being depreciated, net	1,144,324	(94,969)	-	1,049,355
Governmental Activities Capital Assets, Net	\$ 1,598,077	\$(94,969)	\$ -	\$ 1,503,108

Depreciation was charged to departments as follows:

Street Department	\$ 4,572
Sanitation Department	2,085
Police Department	24,490
Fire Department	600
Library Department	12,394
Multi-Purpose Center	23,911
Parks and Recreation	26,917
Total	\$ 94,969

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019:

	Balance July 1, 2018	Additions	Retirement	Balance June 30, 2019
Capital Assets Being Depreciated:				
Plant and Equipment	\$ 1,717,404	\$ 141,664	\$ -	\$ 1,859,068
Distribution System	4,037,798		-	4,037,798
Well & Tanks	787,260	1,016,756		1,804,016
Lake & Treatment Plant	1,881,131	-	-	1,881,131
Sewage Treatment Plant	3,288,573	-	-	3,288,573
	<u>11,712,166</u>	<u>1,158,420</u>	<u>-</u>	<u>12,870,586</u>
Accumulated Depreciation:				
Plant and Equipment	\$ 1,461,700	\$ 98,107	\$ -	\$ 1,559,807
Distribution System	3,544,115	40,857	-	3,584,972
Well & Tanks	299,537	37,453		336,990
Lake & Treatment Plant	1,404,930	14,121	-	1,419,051
Sewage Treatment Plant	1,178,933	75,347	-	1,254,280
	<u>7,889,215</u>	<u>265,885</u>	<u>-</u>	<u>8,155,100</u>
Total Capital Assets Being Depreciated, net	<u>3,822,951</u>	<u>892,535</u>	<u>-</u>	<u>4,715,486</u>
Construction in Progress	871,500		871,500	-
Land	12,522		-	12,522
Total Capital Assets	<u>\$ 4,706,973</u>	<u>\$ 892,535</u>	<u>\$ 871,500</u>	<u>\$ 4,728,008</u>

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE G – DEFINED BENEFIT PENSION PLANS

1. Plan Description

The City of San Augustine participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

2. Benefits Provided

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

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

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

	<u>Plan Year 2018</u>	<u>Plan Year 2019</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Service retirement eligibility (expressed as age/years of service)	60/10,0/25	60/10,0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Employees covered by benefit terms.

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	21
Inactive employees entitled to but not yet receiving benefits	24
Active employees	<u>28</u>
Total	<u>73</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, 2019. Contribution rates for the City were 11.32% and 8.34% in the calendar years 2018 and 2019. The City's contributions to TMRS for the year ended June 30, 2019, were \$130,208, and were equal to the required contributions.

4. Net Pension Liability

City's Net Pension Liability (NPL) was measured as of December 31, 2018 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, 2018 actuarial valuation was determined using the following actuarial assumptions:

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

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core-Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	<u>5.0%</u>	7.75%
Total	<u>100%</u>	

Discount Rate

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2017	<u>\$4,998,817</u>	<u>\$5,056,847</u>	<u>\$(58,030)</u>
Changes for the year:			
Service cost	164,669		164,669
Interest	336,600		336,600
Change in benefit terms	-		-
Difference between expected and actual experience	(15,057)		(15,057)
Changes of assumptions			-
Contributions – employer		128,449	(125,698)
Contributions – employee		79,440	(79,845)
Net investment income		(151,418)	(616,389)
Benefit Payments, including refunds of Employee contributions	(188,984)	(188,984)	-
Administrative expenses		(2,928)	3,195
Other Changes		(153)	162
Net changes	<u>297,228</u>	<u>(135,593)</u>	<u>(667,358)</u>
Balance at 12/31/2018	<u>\$5,296,045</u>	<u>\$4,921,254</u>	<u>\$ 374,791</u>

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

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

	1.1% Decrease in Discount Rate (5.75%)	Discount Rate 6.75%	1.1% Increase in Discount Rate (7.75%)
City's net pension liability	\$1,121,800	\$374,791	\$(235,290)

Pension Plan Fiduciary Net Position

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

For the year ended June 30, 2019, the City recognized pension expense of \$91,627.

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,886	\$ 157,613
Difference between projected and actual investment earnings	450,997	189,839
Contributions subsequent to the measurement date	<u>49,118</u>	<u>-</u>
Total	<u>\$502,001</u>	<u>\$347,452</u>

\$49,118 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Net Deferred Outflows (Inflows) Of Resources</u>
2020	\$16,695
2021	(10,759)
2022	34,334
2023	<u>98,551</u>
Total	<u>\$105,431</u>

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE G – DEFINED OTHER POST-EMPLOYEMENT BENEFIT PLAN

1. Plan Description

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

2. Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). Retired employees are insured for \$7,500.

Membership

Inactive employees currently receiving benefit	12
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>28</u>
Total	<u>46</u>

3. Contributions – Contributions rates are as follows:

	<u>Employer</u>	<u>Retiree</u>
2018	.26%	.08%
2019	.24%	.09%

The City's contributions to the SDBF for the year ended June 30, 2019 was \$2,951.

4. Net OPEB Liability

City's Net OPEB Liability was measured as of December 31, 2018 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.5% to 10.5%, including inflation
Discount rate	3.71%,
Retirees' share of benefit-related costs	\$0

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

All administrative expenses are paid through the OPEB Trust and accounted for under reporting requirements under GASB 75.

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

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

Discount Rate

The discount rate used to measure the Total OPEB Liability was 3.71%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability.

Changes in the OPEB Liability

Balance at 12/31/2017	<u>\$89,367</u>
Changes for the year:	
Service cost	2,497
Interest on total OPEB liability	2,984
Change in benefit terms	-
Difference between expected and actual experience	1,493
Changes of assumptions	(6,202)
Benefit payments *	<u>(908)</u>
Net changes	<u>(136)</u>
Balance at 12/31/2018	<u>\$89,231</u>

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

	<u>1. % Decrease in Discount Rate (2.71%)</u>	<u>Discount Rate 3.71%</u>	<u>1% Increase in Discount Rate (4.71%)</u>
City's OPEB liability	\$106,023	\$89,231	\$76,217

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

For the year ended June 30, 2019, the City recognized OPEB expense of \$5,905.

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,190	\$ -
Changes in actuarial assumptions	-	903
Contributions subsequent to the measurement date	<u>1,413</u>	<u>-</u>
Total	<u>\$ 2,603</u>	<u>\$ 903</u>

\$1,413 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability for the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>Net Deferred Outflows (Inflows) Of Resources</u>
2020	\$ 424
2021	424
2022	328
2023	<u>(889)</u>
Total	<u>\$ 287</u>

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019 and 2018, \$246,225 and \$214,410 of unpaid vacation leave, sick leave, and “comp time” liability has been recorded. Changes in the accumulated liabilities are shown below:

	Proprietary Fund	General Fund Long-Term
Balance at July 1, 2018	\$ 74,307	\$ 140,103
Net Change	12,011	19,803
Balance at June 30, 2019	<u>\$ 86,318</u>	<u>\$ 159,906</u>

NOTE I – LONG-TERM LIABILITIES PROPRIETARY FUND

The following is a summary of the City’s Proprietary Fund long-term debt transactions for the year ended June 30, 2019:

	Debt Outstanding July 1, 2018	Additions	Reductions	Debt Outstanding June 30, 2019	Due in One Year
Tax Anticipation Note 2018	\$ -	\$ -	\$ -	\$ -	\$ -
Backhoe Note Payable	-	86,219	13,618	72,601	28,119
Compensated Absences	74,307	12,011	-	86,318	-
Net Pension Liability	(24,373)	170,541	-	146,168	-
Net OPEB Liability	39,321	-	4,521	34,800	-
Total Proprietary Fund Debt	<u>\$ 89,255</u>	<u>\$ 268,771</u>	<u>\$ 18,139</u>	<u>\$ 339,887</u>	<u>\$ 28,119</u>

The Tax Anticipation Note 2018 has an available line of credit of \$150,000 which was unused during the year ended June 30, 2019. The collateral on the direct debt is the full faith and credit of the City. The collateral for the equipment backhoe note is the backhoe.

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE J – LONG-TERM GOVERNMENTAL ACTIVITIES

The following is summary of the City’s governmental activities long-term debt transactions for the year ended June 30, 2019:

	Debt Outstanding July 1, 2018	Additions	Reductions	Debt Outstanding June 30, 2019	Due In One Year
Certificates of Obligation	\$ 1,310,000	\$ -	\$ 70,000	\$ 1,240,000	\$70,000
Bonds	105,000	-	50,000	55,000	55,000
Compensated Absences	140,103	19,803	-	159,906	-
Net Pension Liability	(33,657)	262,280	-	228,623	-
Net OPEB Liability	50,046	4,385	-	54,431	-
Total Long-Term Debt	<u>\$ 1,571,492</u>	<u>\$ 286,468</u>	<u>\$ 120,000</u>	<u>\$ 1,737,960</u>	<u>\$120,000</u>

Debt outstanding as of June 30, 2019, consisted of the following:

	Interest Rate	Maturity Date	Original Amount	Amount Outstanding
Certificate of Obligation				
2011 Series	2.32%	2022	\$ 500,000	\$ 230,000
2010 Series	0%	2040	1,050,000	1,010,000
General Obligation Refunding Bonds				
Series 2011	2.12%	2020	600,000	<u>55,000</u>
Total Bonds and Certificates of Obligation				<u>\$ 1,295,000</u>

The collateral on the direct debt is the full faith and credit of the City.

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Year Ending June 30	Principal	Interest
2020	\$ 125,000	\$6,502
2021	130,000	3,828
2022	135,000	1,972
2023	50,000	-
2024	50,000	-
2025-2029	250,000	-
2030-2034	250,000	-
2035-2039	250,000	-
2040	55,000	-
Total	<u>\$1,295,000</u>	<u>\$12,302</u>

The City was in compliance with all long-term debt covenants at June 30, 2019.

NOTE K –HEALTH CARE COVERAGE

During the year June 30, 2019 employees of the City of San Augustine were covered by a health insurance plan (the Plan). The City pays 100% of employee’s premiums each month. If the employee chooses to have his/her dependents covered by the Plan, the City pays 20% of the total premium for that family. All premiums were paid to a licensed insurer, Texas Municipal League. The City continues to work to reduce out-of-pocket expenses for its employees.

The contract between the City and the licensed insurer is renewable in January, 2019, 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, 2018, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

NOTE L –RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employers; and natural disasters.

Members purchase workers’ compensation coverage through Deep East Texas Self Insurance Fund, a public entity risk pool, which is self-sustained through member contributions. The Fund reinsures to statutory limits through commercial companies for claims in excess of \$750,000 for the year 2018-2019. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves.

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

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 COMTEGENCIES

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, 2019 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

NOTE N - INTERFUND BALANCES AND ACTIVITIES

1. Due To and From Other Funds

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

<u>Due to Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	System	\$37,468	Cash deposit correction

2. Transfers To and From Other Funds

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

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
System Fund	General Fund	\$192,815	Operating Purposes
System Fund	General Fund	355,382	In Lieu of Taxes
System Fund	Debt Service	<u>138,000</u>	Debt Service
		<u>\$686,197</u>	

CITY OF SAN AUGUSTINE, TEXAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE O –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.

REPORT ON INTERNAL CONTROLS AND ON COMPLIANCE

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, 2019

	BUDGET		ACTUAL	VARIANCE FROM FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		(UNFAVORABLE)
REVENUES:				
Property Taxes	\$ 388,000	\$ 388,000	\$ 413,440	\$ 25,440
Garbage Collection	201,600	201,600	201,984	384
Other Local Taxes and Permits	454,500	454,500	611,609	157,109
Fines and Parking	51,700	51,700	57,059	5,359
Interest Income	-	-	37	37
Miscellaneous	45,371	45,371	72,364	26,993
Donations and Grants	-	-	47,546	47,546
TOTAL REVENUES	1,141,171	1,141,171	1,404,039	262,868
EXPENDITURES:				
City Council	39,025	39,025	41,351	(2,326)
Administrative Department	268,499	268,499	283,430	(14,931)
Street Department	192,992	192,992	148,045	44,947
Sanitation Department	155,564	155,564	156,980	(1,416)
Fire Department	152,753	152,753	125,987	26,766
Police Department	681,326	691,626	583,337	108,289
Corporation Court	98,274	98,274	79,383	18,891
Municipal Buildings	20,901	20,901	9,060	11,841
Library Department	164,108	164,108	141,880	22,228
Multi-Purpose Center	9,447	9,447	18,163	(8,716)
Mission Delores	17,480	17,480	17,209	271
Main Street Program	105,461	105,461	55,253	50,208
Tourism Center	13,187	13,187	14,179	(992)
Miscellaneous	50,000	50,000	7,076	42,924
Capital Outlay	-	-	31,588	(31,588)
TOTAL EXPENDITURES	1,969,017	1,979,317	1,712,921	266,396
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(827,846)</u>	<u>(838,146)</u>	<u>(308,882)</u>	<u>529,264</u>
OTHER FINANCING SOURCES (USES):				
Payments in Lieu of Taxes	767,846	778,146	355,382	422,764
Transfers In (Out)	-	-	192,815	(192,815)
TOTAL OTHER FINANCING SOURCES (USES)	767,846	778,146	548,197	229,949
Change in Fund Balance	(60,000)	(60,000)	239,315	299,315
Fund Balance at Beginning of Year	<u>137,282</u>	<u>137,282</u>	<u>137,282</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	\$ 77,282	\$ 77,282	\$ 376,597	\$ 299,315

The accompanying notes are an integral part of this statement.

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

	2019	2018
Total OPEB Liability		
Service Cost	\$ 2,497	\$ 2,281
Interest (on the Total Pension Liability)	2,984	2,980
Changes in benefit terms	-	-
Difference between expected and actual experience	1,493	-
Change of assumptions	(6,202)	6,799
Benefit payments, including refunds of employee contributions	(908)	(798)
Net Change in Total OPEB Liability	(136)	11,262
Total OPEB Liability - Beginning	89,367	78,105
Total OPEB Liability - Ending (a)	\$ 89,231	\$ 89,367
Covered Employee Payroll	\$ 1,134,862	\$ 1,140,638
Net OPEB Liability as a Percentage of Covered Employee Payroll	7.86%	7.83%

Notes to Schedule:

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability					
Service Cost	\$ 164,669	\$ 170,297	\$ 162,835	\$ 146,847	\$ 144,222
Interest (on the Total Pension Liability)	336,600	340,031	316,556	309,910	317,052
Changes in benefit terms	-	-	-	-	-
Difference between expected and actual experience	(15,057)	(359,111)	58,457	(73,747)	(336,903)
Change of assumptions	-	-	-	46,964	-
Benefit payments, including refunds of employee contributions	(188,984)	(209,491)	(178,109)	(172,965)	(282,455)
Net Change in Total Pension Liability	<u>297,228</u>	<u>(58,274)</u>	<u>359,739</u>	<u>257,009</u>	<u>(158,084)</u>
Total Pension Liability - Beginning	<u>4,998,817</u>	<u>5,057,091</u>	<u>4,697,352</u>	<u>4,440,343</u>	<u>4,598,427</u>
Total Pension Liability - Ending (a)	<u>\$ 5,296,045</u>	<u>\$ 4,998,817</u>	<u>\$ 5,057,091</u>	<u>\$ 4,697,352</u>	<u>\$ 4,440,343</u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ 128,449	\$ 125,698	\$ 110,489	\$ 116,068	\$ 133,532
Contributions - Employee	79,440	79,845	75,939	72,237	76,633
Net Investment Income	(151,418)	616,389	281,251	6,115	228,276
Benefit payments, including refunds of employee contributions	(188,984)	(209,491)	(178,109)	(172,965)	(282,455)
Administrative expense	(2,928)	(3,195)	(3,176)	(3,724)	(2,383)
Other	(153)	(162)	(171)	(186)	(196)
Net Change in Plan Fiduciary Net Position	<u>(135,594)</u>	<u>609,084</u>	<u>286,223</u>	<u>17,545</u>	<u>153,407</u>
Plan Fiduciary Net Position - Beginning	<u>5,056,847</u>	<u>4,447,763</u>	<u>4,161,540</u>	<u>4,143,995</u>	<u>3,990,588</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 4,921,253</u>	<u>\$ 5,056,847</u>	<u>\$ 4,447,763</u>	<u>\$ 4,161,540</u>	<u>\$ 4,143,995</u>
Net Pension Liability - Ending (a) - (b)	374,792	(58,030)	609,328	535,812	296,348
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	92.92%	101.16%	87.95%	88.59%	93.33%
Covered Employee Payroll	\$ 1,134,862	\$ 1,140,638	\$ 1,084,843	\$ 1,031,954	\$ 1,094,758
Net Pension Liability as a Percentage of Covered Employee Payroll	33.03%	-5.09%	56.17%	51.92%	27.07%

Notes to Schedule:

N/A

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

	2019	2018	2017	2016	2015
Actuarially determined contributions	\$ 128,449	\$ 123,182	\$ 121,403	\$ 114,066	\$ 120,393
Contributions in relation to the actuarially determined contribution	128,449	123,182	121,403	114,066	120,393
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 1,134,862	\$ 1,102,613	\$ 1,143,961	\$ 1,063,213	\$ 1,004,127
Contributions as a percentage of covered employee payroll	11.32%	11.17%	10.61%	10.73%	11.99%

Notes to Schedule of Contributions

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience- based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SAN AUGUSTINE, TEXAS
SCHEDULE OF DEPARTMENTAL NET OPERATING INCOME
(BEFORE DEPRECIATION) - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

	ELECTRIC DEPARTMENT	WATER & SEWER DEPARTMENT	TOTAL
Operating Revenues			
Electric	\$ 2,866,324		\$ 2,866,324
Water		\$ 966,965	966,965
Sewer		427,142	427,142
Tapping Fees		2,638	2,638
Penalties		76,691	76,691
Other Charges for Services		655	655
Miscellaneous		116,146	116,146
Total Operating Revenues	<u>2,866,324</u>	<u>1,590,237</u>	<u>4,456,561</u>
Operating Expenses			
Administration	117,241	117,241	234,482
Water production & treatment		643,275	643,275
Water distribution		214,952	214,952
Sewer collection		120,670	120,670
Sewer treatment		250,666	250,666
Electric department	2,135,813		2,135,813
Total Operating Expense (Excluding Depreciation)	<u>2,253,054</u>	<u>1,346,804</u>	<u>3,599,858</u>
Net Operating Income Before Depreciation	<u>\$ 613,270</u>	<u>\$ 243,433</u>	<u>\$ 856,703</u>

CITY OF SAN AUGUSTINE, TEXAS
COMPARATIVE SCHEDULE OF OPERATING EXPENSES - PROPRIETARY
FOR THE YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018

	<u>2019</u>	<u>2018</u>
Administration		
Salaries and wages	\$ 115,740	\$ 104,170
Supplies	7,949	5,002
Contractual	62,517	49,716
Maintenance - equipment	3,180	664
Sundry charges	<u>45,096</u>	<u>35,129</u>
Total	<u>234,482</u>	<u>194,681</u>
Water Treatment and Production		
Salaries and wages	97,673	92,066
Supplies	260,058	180,266
Contractual	91,078	123,217
Maintenance - buildings & structures	58,382	18,436
Maintenance - equipment	90,754	113,983
Sundry charges	<u>45,330</u>	<u>32,700</u>
Total	<u>643,275</u>	<u>560,668</u>
Water distribution		
Salaries and wages	46,055	47,416
Supplies	42,817	40,159
Contractual	50,862	46,646
Maintenance - buildings & structures	56,063	40,988
Maintenance - equipment	981	19,122
Sundry charges	<u>18,174</u>	<u>17,973</u>
Total	<u>214,952</u>	<u>212,304</u>
Sewer Collection		
Salaries and wages	44,996	44,376
Supplies	5,497	9,508
Contractual	9,413	10,125
Maintenance - buildings & structures	26,064	38,561
Maintenance - equipment	13,848	11,429
Sundry charges	<u>20,852</u>	<u>17,976</u>
Total	<u>120,670</u>	<u>131,975</u>

	<u>2019</u>	<u>2018</u>
Sewer Treatment		
Salaries	\$ 92,366	\$ 82,444
Supplies	19,201	21,163
Contractual	60,104	49,182
Maintenance - buildings & structures	437	222
Maintenance - equipment	47,057	9,172
Sundry charges	31,501	22,595
Total	<u>250,666</u>	<u>184,778</u>
Electric Department		
Salaries and wages	146,189	125,580
Supplies	72,098	83,065
Contractual	1,814,971	1,785,389
Maintenance - equipment	56,783	50,499
Sundry charges	45,772	31,812
Total	<u>2,135,813</u>	<u>2,076,345</u>
Depreciation	<u>265,885</u>	<u>237,121</u>
Total Operating Expenses	<u>\$ 3,865,743</u>	<u>\$ 3,597,872</u>

CITY OF SAN AUGUSTINE, TEXAS
COMPARATIVE SCHEDULE OF CURRENT EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018

City Council	2019	2018
Mayor and council fees and wages	\$ 8,300	\$ 8,200
Supplies	1,840	1,526
Contractual	28,775	18,637
Maintenance - equipment	1,848	1,025
Sundry charges	588	588
	<u>41,351</u>	<u>29,976</u>
 Administrative Department		
Salaries and wages	116,127	112,140
Supplies	10,429	4,983
Contractual	110,927	70,732
Maintenance - buildings & structures	2,531	-
Maintenance - equipment	290	523
Sundry charges	43,126	43,507
	<u>283,430</u>	<u>231,885</u>
 Street Department		
Salaries and wages	50,100	52,526
Supplies	14,766	19,385
Contractual	13,858	9,987
Maintenance - buildings & structures	21,334	48,067
Maintenance - equipment	13,604	16,912
Sundry charges	34,383	35,214
	<u>148,045</u>	<u>182,091</u>
 Sanitation Department		
Contractual	156,980	155,350
Maintenance - buildings & structures	-	18
Maintenance - equipment	-	746
	<u>156,980</u>	<u>156,114</u>
 Fire Department		
Salaries and wages	75,847	73,021
Supplies	7,110	7,194
Contractual	15,264	10,186
Maintenance - buildings & structures	340	-
Maintenance - equipment	9,525	6,592
Sundry charges	17,901	14,500
	<u>125,987</u>	<u>111,493</u>
 Police Department		
Salaries and wages	377,336	344,833
Supplies	17,121	19,082
Contractual	29,627	27,281
Maintenance - buildings and structures	806	2,204
Maintenance - equipment	9,887	8,788
Sundry charges	148,560	148,323
	<u>583,337</u>	<u>550,511</u>

	<u>2019</u>	<u>2018</u>
Corporation Court		
Salaries and wages	\$ 29,149	\$ 38,971
Supplies	1,119	1,348
Contractual	40,406	33,288
Maintenance - equipment	8,709	14,535
Sundry charges	-	-
Total	<u>79,383</u>	<u>88,142</u>
Municipal Buildings		
Salaries and wages	1,326	1,392
Supplies	1,471	1,630
Contractual	2,497	2,382
Maintenance - buildings & structures	2,859	5,056
Sundry charges	907	784
Total	<u>9,060</u>	<u>11,244</u>
Library Department		
Salaries and wages	87,008	85,712
Supplies	1,959	2,475
Contractual	19,414	17,755
Maintenance - buildings & structures	2,049	4,409
Maintenance - equipment	1,667	914
Sundry charges	29,783	30,093
Total	<u>141,880</u>	<u>141,358</u>
Multi-Purpose Center		
Salaries and wages	259	329
Supplies	17	58
Contractual	3,224	3,931
Maintenance - buildings & structures	14,052	1,162
Sundry charges	611	592
Total	<u>18,163</u>	<u>6,072</u>
Mission Delores		
Salaries and wages	-	-
Supplies	-	-
Contractual	17,209	35,873
Maintenance - buildings & structures	-	-
Maintenance - equipment	-	-
Sundry	-	588
Total	<u>17,209</u>	<u>36,461</u>

CITY OF SAN AUGUSTINE, TEXAS
COMPARATIVE SCHEDULE OF CURRENT EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018

	2019	2018
Main Street Program		
Salaries and wages	33,672	32,741
Supplies	434	621
Contractual	4,846	3,175
Sundry	16,301	14,761
Total	55,253	51,298
 Tourism Center		
Salaries and wages	662	1,320
Supplies	14	281
Contractual	8,636	5,655
Maintenance - buildings and grounds	4,223	2,787
Sundry	644	6
Total	14,179	10,049
 Departmental Total Expenditures	\$ 1,674,257	\$ 1,606,694

CITY OF SAN AUGUSTINE, TEXAS
OTHER DATA
FOR THE YEAR ENDED JUNE 30, 2019
UNAUDITED

Cash balance of General Obligation debt service funds:

Interest and Sinking Fund Cash \$ 101,207

Assessed valuation for 2018 tax year: \$61,091,740

Ad valorem tax rate for 2018 tax year: \$0.633301/\$100 valuation

2018 tax year collections, including penalty and interest: \$351,707

Insurance Coverage	Description of Coverage	Amount
Texas Municipal League	Automobile liability	\$ 1,000,000
Texas Municipal League	Real and personal property	\$ 11,094,353
Texas Municipal League	General liability	\$ 2,000,000
Texas Municipal League	Equipment coverage	\$ 424,046
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 1,092 water connections, 753 sewer connections and 1,084 electricity connections at June 30, 2019.

CITY OF SAN AUGUSTINE
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	VARIANCE WITH
	<u>ORIGINAL</u>	<u>FINAL</u>		FINAL BUDGET
				POSITIVE (NEGATIVE)
REVENUES:				
Other Local Taxes and Permits	\$ -	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:				
Current:				
Payments on Long-Term Debt	129,420	129,420	129,451	(31)
Total Payments on Long-Term Debt	<u>129,420</u>	<u>129,420</u>	<u>129,451</u>	<u>(31)</u>
Other Financing Sources and (Uses)				
Operating Transfer In	138,000	138,000	138,000	-
Operating Transfer Out	-	30,000	-	30,000
Total Other Financing Sources and (Uses)	<u>138,000</u>	<u>168,000</u>	<u>138,000</u>	<u>30,000</u>
Net Change in Fund Balance	8,580	38,580	8,549	29,969
Fund Balance - September 1 (Beginning)	<u>101,207</u>	<u>101,207</u>	<u>101,207</u>	<u>-</u>
Fund Balance - August 31 (Ending)	<u>\$ 109,787</u>	<u>\$ 139,787</u>	<u>\$ 109,756</u>	<u>\$ 29,969</u>

REPORT ON INTERNAL CONTROLS AND ON COMPLIANCE

TILLER AND COMPANY

A PROFESSIONAL CORPORATION OF
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of San Augustine, Texas (the "City") as of and for the year ended June 30, 2019, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 1, 2019.

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 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 in charge with governance.

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


Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Honorable Mayor and
City Council Members
City of San Augustine, Texas
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Purpose of This Report

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


Tiller and Company
A Professional Corporation of
Certified Public Accountants

San Augustine, Texas
December 1, 2019

CITY OF SAN AUGUSTINE, TEXAS
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

2018-1 – GENERAL LEDGER

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

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

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

Cause: Accounting personnel were not timely recording transactions.

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

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

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

Status: The City has emphasized timely preparation of the accounting documents during the current fiscal year.

2018-2 SEGREGATION OF DUTIES

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

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

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

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

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

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

Status: The City has made changes to the collection procedures for utility billings and has reviewed and implemented, where possible, changes to strengthen segregation of duties. Where additional segregations are not possible, the City has placed additional emphasis on management reviews.