

**City of Florence, Texas  
Financial Statements  
For the Year Ended  
September 30, 2017**

*Taber & Burnett, P.C.*  
A Professional Corporation  
Certified Public Accountants

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION

As management of the City of Florence, Texas (the City), we are pleased to offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2017. We encourage readers to consider it in conjunction with the additional information presented in the accompanying basic financial statements and the notes to the financial statements.

**Financial Statements**

- The net position of the City's governmental activities increased by \$71,152 as a result of the current year's operations. Net position at year end consisted of invested in capital assets (net of related debt) of \$975,024, restricted net position for various purposes of \$290,018, and unrestricted net position of \$925,198, for total net position of \$2,190,240.
- The City's business-type activities net position increased by \$132,354 as a result of the current year's operations. Business-type net position consisted of invested in capital assets (net of related debt) of \$2,443,913, restricted net position for construction of \$164,080, and unrestricted net position of \$433,696, for total net position of \$3,041,689 at the end of the year.
- Total revenues from all sources were \$1,855,371. This represents an increase of \$387,907 due to increased water charges and grant revenues.
- Total costs of all programs were \$1,651,371. This represents an increase of \$102,052 due primarily to an increase in water system costs.
- As of September 30, 2017, the City's governmental funds reported an ending fund balance of \$1,184,045, of which \$894,027 is unassigned and \$290,018 is restricted for various purposes.

**Using this Annual Report**

This Management's Discussion and Analysis is intended to serve as an introduction to the City's basic financial statements.

This report presents the following three components of the financial statements:

1. Government-wide financial statements provide information for the City as a whole.
2. Fund financial statements provide detailed information for the City's significant funds.
3. Notes to the financial statements provide additional information that is essential to understanding the government-wide and fund financial statements.

This report also contains other required supplementary information in addition to the basic financial statements. The supplementary information includes this management's discussion and analysis and a budgetary comparison schedule.

## **Government-Wide Financial Statements**

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

The *Statement of Net Position* presents information on all of the assets and liabilities of the City. The difference between assets and liabilities is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information on how the City's net position changed during the most recent fiscal year. This statement is presented using the accrual basis of accounting, which means that all of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Both the Statement of Net Position and the Statement of Activities present information for the following:

- Governmental activities include general government, public safety, highways, streets, community improvements, planning and zoning, judicial, general administrative, and other services as are authorized by its code of ordinances and its citizens.
- Business activities include water and sanitation services.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of these costs through user fees and charges (business-type activities).

The government-wide financial statements begin on page 12. The following table is a summary of net position as of September 30, 2017:

**Table 1  
Net Position**

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 1,220,603	\$ 1,070,774	\$ 658,038	\$ 776,698	\$ 1,878,641	\$ 1,847,472
Debt issuance costs	-	-	23,096	25,098	23,096	25,098
Capital assets, net	<u>990,783</u>	<u>1,082,805</u>	<u>3,133,060</u>	<u>2,981,124</u>	<u>4,123,843</u>	<u>4,063,929</u>
Total assets	<u>2,211,386</u>	<u>2,153,579</u>	<u>3,814,194</u>	<u>3,782,920</u>	<u>6,025,580</u>	<u>5,936,499</u>
Deferred outflow of resources	<u>20,284</u>	<u>23,541</u>	<u>11,913</u>	<u>15,694</u>	<u>32,197</u>	<u>39,235</u>
Current liabilities	12,919	25,052	91,088	155,054	104,007	180,106
Due to utility fund	2,083	3,796	(2,083)	(3,796)	-	-
Noncurrent liabilities	<u>15,759</u>	<u>22,663</u>	<u>689,147</u>	<u>733,673</u>	<u>704,906</u>	<u>756,336</u>
Total liabilities	<u>30,761</u>	<u>51,511</u>	<u>778,152</u>	<u>884,931</u>	<u>808,913</u>	<u>936,442</u>
Deferred inflow of resources	<u>10,669</u>	<u>6,521</u>	<u>6,266</u>	<u>4,348</u>	<u>16,935</u>	<u>10,869</u>
Net position:						
Invested in capital assets, net of related debt	975,024	1,060,142	2,443,913	2,247,451	3,418,937	3,307,593
Restricted for:						
Child and safety	11,397	9,693	-	-	11,397	9,693
Construction	-	-	164,080	279,076	164,080	279,076
Court	17,206	18,413	-	-	17,206	18,413
Parks	46,320	22,033	-	-	46,320	22,033
Police department	5,403	8,362	-	-	5,403	8,362
Streets	203,039	119,226	-	-	203,039	119,226
Veterans memorial	6,653	6,921	-	-	6,653	6,921
Unrestricted	925,198	874,298	433,696	382,808	1,358,894	1,257,106
	\$ 2,190,240	\$ 2,119,088	\$ 3,041,689	\$ 2,909,335	\$ 5,231,929	\$ 5,028,423

The following table is a summary of changes in net position for the year ended September 30, 2017:

**Table 2  
Changes in Net Position**

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 230,596	\$ 221,564	\$ 761,292	\$ 655,680	\$ 991,888	\$ 877,244
Operating grants and contributions	8,506	29,620	-	10,000	8,506	39,620
Capital grants and contributions	-	-	257,336	-	257,336	-
General revenues:						
Property taxes	288,967	284,420	14,168	3,796	303,135	288,216
Sales taxes	249,555	232,396	-	-	249,555	232,396
Franchise taxes	43,096	41,980	-	-	43,096	41,980
Miscellaneous	1,651	2,891	-	-	1,651	2,891
Gain (loss) on disposition of assets	-	(1,058)	(3,163)	(17,321)	(3,163)	(18,379)
Investment earnings	<u>2,275</u>	<u>2,048</u>	<u>1,092</u>	<u>1,448</u>	<u>3,367</u>	<u>3,496</u>
Total revenues	<u>824,646</u>	<u>813,861</u>	<u>1,030,725</u>	<u>653,603</u>	<u>1,855,371</u>	<u>1,467,464</u>
Expenses:						
General government	264,442	242,973	-	-	264,442	242,973
Public safety	223,275	202,577	-	-	223,275	202,577
Public works	68,624	59,926	-	-	68,624	59,926
Municipal court	148,169	137,653	-	-	148,169	137,653
Parks and recreation	37,684	57,757	-	-	37,684	57,757
Water and sewer	-	-	<u>909,671</u>	<u>848,927</u>	<u>909,671</u>	<u>848,927</u>
Total expenses	<u>742,194</u>	<u>700,886</u>	<u>909,671</u>	<u>848,927</u>	<u>1,651,865</u>	<u>1,549,813</u>
Increase in net position before transfers	82,452	112,975	121,054	(195,324)	203,506	(82,349)
Transfers	<u>(11,300)</u>	<u>(19,000)</u>	<u>11,300</u>	<u>19,000</u>	-	-
Increase in net position	71,152	93,975	132,354	(176,324)	203,506	(82,349)
Net position - October 1	2,119,088	2,025,113	2,909,335	3,085,659	5,028,423	5,110,772
Net position - September 30	\$ 2,190,240	\$ 2,119,088	\$ 3,041,689	\$ 2,909,335	\$ 5,231,929	\$ 5,028,423

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements provide detailed information about the City's significant funds - not the City as a whole. All of the City's funds fall into two categories - governmental funds and proprietary funds.

The *governmental fund statements* provide a detailed short-term view of the government operations and the basic services it provides, and are reported on the modified accrual basis of accounting which focuses on available spendable resources. The focus of the City's *governmental fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. *Unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. This allows the reader to evaluate the City's short-term financing requirements. Both the governmental fund *Balance Sheet* and the governmental fund *Statement of Revenues, Expenditures, and Changes in Fund Balances* provide a reconciliation to the government-wide financial statements.

The City adopts an annual budget for the General Fund. A budgetary comparison schedule has been provided to demonstrate compliance. The governmental fund financial statements begin on page 15, and the budgetary comparison schedule is on page 48.

The *proprietary funds statements* present the same functions as the business-type activities in the government-wide financial statements. The City uses the proprietary funds to account for its water and sanitation operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary funds financial statements begin on page 20.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 46 of this report.

### **General Fund Budgetary Highlights**

The City did not amend the budget during the year ended September 30, 2017.

The City's overall actual revenue was 7 percent more than budgeted. This mainly resulted from increased sales tax collections. The City's overall actual expenses were 7 percent less than budgeted. This primarily relates to a decrease in park expenses.



**Capital Assets**

In accordance with GASB Statement No. 34, the City is not required to report infrastructure retrospectively. Therefore, infrastructure has been capitalized prospectively beginning April 1, 2004.

The City's investment in capital assets (net of accumulated depreciation) for its governmental activities as of September 30, 2017, amounts to \$990,783 and for the City's business-type activities \$3,133,060. This investment in capital assets includes land, buildings, water and sewer system assets, improvements, vehicles, machinery and equipment.

**Capital Assets at Year End  
(net of depreciation)**

	Governmental Activities	Business-Type Activities	Total 2017	Total 2016
Land	\$ 142,966	\$ 8,802	\$ 151,768	\$ 151,768
Machinery and equipment	63,621	94,805	158,426	113,637
Buildings and improvements	414,967	-	414,967	455,147
Street improvements	369,229	-	369,229	422,762
Water system	-	1,874,757	1,874,757	1,700,932
Sewer system	-	1,154,696	1,154,696	1,219,683
Total	\$ <u>990,783</u>	\$ <u>3,133,060</u>	\$ <u>4,123,843</u>	\$ <u>4,063,929</u>

Major capital asset additions during the year included the following:

Stripper Towers	\$ 203,720
Tank Recoating	54,400
Grant Work	<u>24,525</u>
	\$ <u>282,645</u>

During the year ended September 30, 2017, old water equipment was scrapped.

Additional information on the City's capital assets can be found in Notes 5 and 6 beginning on page 35 of this report.

**Debt Administration**

At year end, the City had the following debt:

**Outstanding Debt at Year End**

	Governmental Activities	Business-Type Activities	Total 2017	Total 2016
Notes Payable	\$ 15,759	\$ 109,147	\$ 124,906	\$ 136,336
Certificates of Obligation	<u>-</u>	<u>580,000</u>	<u>580,000</u>	<u>620,000</u>
Total	\$ <u>15,759</u>	\$ <u>689,147</u>	\$ <u>704,906</u>	\$ <u>756,336</u>

During the year, the City assumed no new debt.

The City incurred \$24,628 of interest expense during the year ended September 30, 2017, all of which has been charged as a direct expense to the various departments.

Additional information on the City's non-current liabilities can be found in Notes 7 and 8 beginning on page 36 of this report.

**Economic Factors, Next Year's Budgets, and Highlights**

The City of Florence continues to prepare and plan for future growth, by initiating policies and overseeing compliance in all areas of infrastructure and services.

Prior-to year end, the City was awarded an emergency community water assistant grant from the United States Department of Agriculture in the amount of \$196,000 for the mitigation of methane gas on two of our wells. This project is now complete. The construction on the new line to access our surface water is also complete and being utilized to supplement our wells.

The City is also in the process of applying for multiple grants/loans from the United States Department of Agriculture for water and sewer improvements, street repair, a community center/swimming pool, and a new Community Development Block Grant to assist with other improvements to the water system. The City was awarded a Texas Parks and Wildlife Grant for a new swimming pool, to refurbish the basketball courts, and to install a toddler's play scape. Construction should being in the summer of 2018.

The Council and employees continue to strive for a pro-active approach by improving communication and services to the citizens of Florence.

**Contacting the City's Financial Management**

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives from the citizens of Florence. If you have any questions about this report or need further information, contact the City of Florence, P.O. Box 430, Florence, Texas, 76527, or call 254-793-2490.

**Taber & Burnett, P.C.**

*A Professional Corporation  
Certified Public Accountants*

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**INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and City Council  
City of Florence, Texas

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, and each major fund of the City of Florence (the City), as of and for the year ended September 30, 2017, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic 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 City's preparation and fair presentation of the basic 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 basic financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund, of the City of Florence as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other required supplementary information on pages 2 through 9 and 48 through 50 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. The supplemental information is the responsibility of management. 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.

Taber & Burnett, P.C.

Burnet, Texas  
July 6, 2018

**City of Florence, Texas**

Statement of Net Position

As of September 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 979,253	\$ 577,904	\$ 1,557,157	\$ 107,624
Receivables	41,350	80,134	121,484	-
Treasury bonds	200,000	-	200,000	-
Debt issuance costs, net	-	23,096	23,096	-
Capital assets, net	<u>990,783</u>	<u>3,133,060</u>	<u>4,123,843</u>	<u>-</u>
Total assets	<u>2,211,386</u>	<u>3,814,194</u>	<u>6,025,580</u>	<u>107,624</u>
<b>Deferred Outflow of Resources</b>				
Difference between projected and actual earnings on pension plans	9,021	5,298	14,319	-
Difference in assumption changes	5,092	2,991	8,083	-
Contributions subsequent to the measurement date	<u>6,171</u>	<u>3,624</u>	<u>9,795</u>	<u>-</u>
Total deferred outflow of resources	<u>20,284</u>	<u>11,913</u>	<u>32,197</u>	<u>-</u>
<b>Liabilities</b>				
Accounts payable	-	9,524	9,524	-
Accrued expenses	12,130	12,587	24,717	43
Due to utility fund	2,083	(2,083)	-	-
Customer deposits	-	68,514	68,514	-
Net pension liability	789	463	1,252	-
Noncurrent liabilities				
Due within one year	7,132	44,662	51,794	-
Due in more than one year	<u>8,627</u>	<u>644,485</u>	<u>653,112</u>	<u>-</u>
Total liabilities	<u>30,761</u>	<u>778,152</u>	<u>808,913</u>	<u>43</u>
<b>Deferred Inflow of Resources</b>				
Difference between expected and actual experience	<u>10,669</u>	<u>6,266</u>	<u>16,935</u>	<u>-</u>
Total deferred inflow of resources	<u>10,669</u>	<u>6,266</u>	<u>16,935</u>	<u>-</u>
<b>Net Position</b>				
Invested in capital assets, net of related debt	975,024	2,443,913	3,418,937	-
Restricted for:				
Child and safety	11,397	-	11,397	-
Construction	-	164,080	164,080	-
Court	17,206	-	17,206	-
Parks	46,320	-	46,320	-
Police department	5,403	-	5,403	-
Streets	203,039	-	203,039	-
Veterans memorial	6,653	-	6,653	-
Library	-	-	-	107,581
Unrestricted	925,198	433,696	1,358,894	-
Total net position	\$ 2,190,240	\$ 3,041,689	\$ 5,231,929	\$ 107,581

The accompanying notes are an integral part of the financial statements.

**City of Florence, Texas***Statement of Activities*

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 264,442	\$ 3,780	\$ -	\$ -
Public safety	223,275	42	3,872	-
Public works	68,624	-	-	-
Municipal court	148,169	226,774	-	-
Parks and recreation	<u>37,684</u>	<u>-</u>	<u>4,634</u>	<u>-</u>
Total governmental activities	\$ <u>742,194</u>	\$ <u>230,596</u>	\$ <u>8,506</u>	\$ <u>-</u>
Business-type activities:				
Water and sanitation	\$ <u>909,671</u>	\$ <u>761,292</u>	\$ <u>-</u>	\$ <u>257,336</u>
Total primary government	\$ <u>1,651,865</u>	\$ <u>991,888</u>	\$ <u>8,506</u>	\$ <u>257,336</u>
Component Unit:				
Library	\$ <u>19,276</u>	\$ <u>-</u>	\$ <u>19,703</u>	\$ <u>-</u>

<u>Net (Expense) Revenue and Changes in Net Position</u>			
<u>Primary Government</u>			
<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>	<u>Component</u>
<u>Activities</u>	<u>Activities</u>		<u>Unit</u>
\$ (260,662)	\$ -	\$ (260,662)	\$ -
(219,361)	-	(219,361)	-
(68,624)	-	(68,624)	-
78,605	-	78,605	-
<u>(33,050)</u>	<u>-</u>	<u>(33,050)</u>	<u>-</u>
\$ <u>(503,092)</u>	\$ <u>-</u>	\$ <u>(503,092)</u>	\$ <u>-</u>
\$ <u>-</u>	\$ <u>108,957</u>	\$ <u>108,957</u>	\$ <u>-</u>
\$ <u>(503,092)</u>	\$ <u>108,957</u>	\$ <u>(394,135)</u>	\$ <u>-</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>427</u>
General revenues:			
Taxes:			
Property taxes	288,967	14,168	303,135
Sales taxes	249,555	-	249,555
Franchise taxes	43,096	-	43,096
Miscellaneous	1,651	-	1,651
Gain (loss) on disposition of assets	-	(3,163)	(3,163)
Investment earnings	2,275	1,092	3,367
Transfers	<u>(11,300)</u>	<u>11,300</u>	<u>-</u>
Total general revenues	<u>574,244</u>	<u>23,397</u>	<u>597,641</u>
Change in net position	71,152	132,354	203,506
Net Position, Beginning of Year	2,119,088	2,909,335	5,028,423
Net Position, End of Year	\$ 2,190,240	\$ 3,041,689	\$ 5,231,929
			\$ 107,581

The accompanying notes are an integral part of the financial statements.



**City of Florence, Texas***Balance Sheet - Governmental Funds**As of September 30, 2017*

	Governmental Funds General <u>Fund</u>	Total Governmental <u>Funds</u>
<b>Assets</b>		
Cash and savings	\$ 979,253	\$ 979,253
Receivables:		
Property and sales taxes	38,394	38,394
Treasury bonds	<u>200,000</u>	<u>200,000</u>
Total Assets	\$ <u>1,217,647</u>	\$ <u>1,217,647</u>
<b>Liabilities and Fund Balances</b>		
Liabilities:		
Accrued expenses	\$ 12,130	\$ 12,130
Due to utility fund	2,083	2,083
Deferred revenues	<u>19,389</u>	<u>19,389</u>
Total Liabilities	<u>33,602</u>	<u>33,602</u>
Fund Balances:		
Restricted for:		
Child and Safety	11,397	11,397
Court	17,206	17,206
Parks	46,320	46,320
Police Department	5,403	5,403
Streets	203,039	203,039
Veterans Memorial	6,653	6,653
Unassigned	<u>894,027</u>	<u>894,027</u>
Total Fund Balances	1,184,045	1,184,045
Total Liabilities and Fund Balances	\$ 1,217,647	\$ 1,217,647

The accompanying notes are an integral part of the financial statements.

**City of Florence, Texas**

*Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position*

*As of September 30, 2017*

Total Fund Balance - Governmental Funds:	\$ 1,184,045
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. (See Note 5)	990,783
Other long-term assets that are not available to pay for current year expenditures are not reported in the governmental funds balance sheet.	22,345
Deferred outflows are not financial resources and, therefore, are not reported in the funds.	20,284
Net pension liabilities are not due and payable in the current year and therefore, is not reported as a liability in the governmental funds balance sheet.	(789)
Long-term liabilities are not due and payable in the current year and therefore are not reported as liabilities in the governmental funds balance sheet. (See Note 7)	(15,759)
Deferred inflows are not due and payable in the current year and therefore, are not reported in the governmental funds balance sheet.	<u>(10,669)</u>
Net Position of Governmental Activities	\$ <u>2,190,240</u>

The accompanying notes are an integral part of the financial statements.

**City of Florence, Texas***Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds**For the Year Ended September 30, 2017*

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues		
Tax collections, penalties, and interest	\$ 288,967	\$ 288,967
Sales tax	250,330	250,330
Franchise tax	43,096	43,096
Municipal court fines	226,774	226,774
Police revenue	42	42
Fees and permits	3,780	3,780
Interest	2,275	2,275
Contributions	8,506	8,506
Miscellaneous	<u>1,651</u>	<u>1,651</u>
Total Revenues	<u>825,421</u>	<u>825,421</u>
Expenditures		
General government	260,595	260,595
Parks and recreation	10,542	10,542
Public safety	214,499	214,499
Public works	23,625	23,625
Municipal court	<u>146,105</u>	<u>146,105</u>
Total Expenditures	<u>655,366</u>	<u>655,366</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>170,055</u>	<u>170,055</u>

The accompanying notes are an integral part of the financial statements.

**City of Florence, Texas**

*Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds (Continued)*

*For the Year Ended September 30, 2017*

	General <u>Fund</u>	Total Governmental <u>Funds</u>
Other Financing Sources (Uses)		
Transfers	<u>(11,300)</u>	<u>(11,300)</u>
Total Other Financing Sources (Uses)	<u>(11,300)</u>	<u>(11,300)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	158,755	158,755
Fund Balance - Beginning of Year	<u>1,025,290</u>	<u>1,025,290</u>
Fund Balance - End of Year	\$ <u>1,184,045</u>	\$ <u>1,184,045</u>

The accompanying notes are an integral part of the financial statements.

**City of Florence, Texas**

*Reconciliation of the Governmental Funds  
Statement of Revenues, Expenditures and Changes in  
Fund Balances to the Statement of Activities*

*For the Year Ended September 30, 2017*

Net Change in Fund Balance - Governmental Funds	\$ 158,755
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount is the net effect of these differences in the treatment of capital outlays and related items. (See Note 5)	(92,022)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(775)
Pension expenditures reported in the funds are current financial resources, however, pension expenses in the statement of activities will be expensed as incurred.	(1,710)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items. (See Note 7)	<u>6,904</u>
Change in Net Position of Governmental Activities	\$ <u><u>71,152</u></u>

The accompanying notes are an integral part of the financial statements.

**City of Florence, Texas**Statement of Net Position  
Proprietary Fund

As of September 30, 2017

	<u>Business-Type Activities</u>
<b>Assets</b>	
Current Assets	
Cash and cash equivalents	\$ 577,904
Accounts receivable	80,134
Due from general fund	<u>2,083</u>
Total Current Assets	660,121
Other Assets	
Debt issuance costs (net of accumulated amortization)	23,096
Capital Assets	
Fixed assets (net of accumulated depreciation when applicable)	<u>3,133,060</u>
Total Assets	<u>3,816,277</u>
<b>Deferred Outflow of Resources</b>	
Difference between projected and actual earnings on pension plans	5,298
Difference in assumption changes	2,991
Contributions subsequent to the measurement date	<u>3,624</u>
Total deferred outflow of resources	<u>11,913</u>
Total Assets and Deferred Outflows	\$ <u>3,828,190</u>
<b>Liabilities</b>	
Current Liabilities	
Accounts payable	\$ 9,524
Accrued expenses	12,587
Customer deposits	68,514
Current portion of long-term debt	<u>44,662</u>
Total Current Liabilities	135,287
Other Liabilities	
Net pension liability	463
Non-Current Liabilities	
Long-term debt	<u>644,485</u>
Total Liabilities	<u>780,235</u>
<b>Deferred Inflow of Resources</b>	
Difference between expected and actual experience	6,266
Total deferred inflow of resources	6,266
<b>Net Position</b>	
Invested in capital assets, net of related debt	2,443,913
Restricted for construction	164,080
Unrestricted net position	433,696
Total Net Position	3,041,689
Total Liabilities, Deferred Inflows and Net Position	\$ 3,828,190

The accompanying notes are an integral part of the financial statements.

**City of Florence, Texas***Statement of Revenues, Expenses and  
Changes in Fund Net Position  
Proprietary Fund**For the Year Ended September 30, 2017*

	<u>Business-Type Activities</u>
Revenues	
Charges for services	\$ <u>761,292</u>
Total Revenues	<u>761,292</u>
Expenses	
Administration	18,241
Contractual services	169,770
Depreciation	183,022
Repairs and maintenance	168,013
State fees	15,412
Utilities	53,682
Wages and benefits	153,200
Water purchases	<u>122,392</u>
Total Expenses	<u>883,732</u>
Net Operating Income (Loss)	<u>(122,440)</u>
Non-Operating Revenue and (Expenses)	
Property taxes	14,168
Issuance cost amortization	(2,002)
Interest revenue	1,092
Interest expense	(23,937)
Loss on disposition of assets	(3,163)
Grant revenue	<u>257,336</u>
Total Non-Operating Revenue and (Expenses)	<u>243,494</u>
Interfund Transfers	
Transfers in	<u>11,300</u>
Total Interfund Transfers	11,300
Net Income (Loss)	132,354
Total Net Position, Beginning of Year	2,909,335
Total Net Position, End of Year	\$ 3,041,689

The accompanying notes are an integral part of the financial statements.

**City of Florence, Texas***Statement of Cash Flows  
Proprietary Fund**For the Year Ended September 30, 2017*

	<u>Business-Type Activities</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 768,562
Payments to suppliers	(634,745)
Payments to employees	(134,474)
Net cash provided (used) by operating activities	<u>(657)</u>
Cash Flows from Non-Capital Financing Activities	
Transfer from other funds	<u>11,300</u>
Net Cash provided (used) by non-capital financing activities	<u>11,300</u>
Cash Flows from Capital and Related Financing Activities	
Grant revenue	257,336
Property tax revenues	14,168
Note principal payments	(44,526)
Issuance cost amortization	(2,002)
Interest on debt	(23,937)
Acquisition of capital assets	(338,121)
Net cash provided (used) by capital and related financing activities	<u>(137,082)</u>
Cash Flows from Investing Activities	
Interest on investments	<u>1,092</u>
Net cash provided (used) by investing activities	<u>1,092</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(125,347)
Cash and Cash Equivalents at Beginning of Year	<u>703,251</u>
Cash and Cash Equivalents at End of Year	\$ <u>577,904</u>

The accompanying notes are an integral part of the financial statements.



**City of Florence, Texas***Statement of Cash Flows  
Proprietary Fund (Continued)**For the Year Ended September 30, 2017*

	<u>Business-Type Activities</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income	\$ (122,440)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	183,022
(Increase) decrease in accounts receivable	(6,687)
(Increase) decrease in due from general fund	1,713
(Increase) decrease in debt issuance costs	2,002
(Increase) decrease in deferred outflows	3,781
Increase (decrease) in accounts payable	(53,966)
Increase (decrease) in accrued expenses	(10,034)
Increase (decrease) in customer deposits	3,894
Increase (decrease) in net pension liability	(3,860)
Increase (decrease) in deferred inflows	<u>1,918</u>
Net cash provided by operating activities	\$ <u><u>(657)</u></u>

The accompanying notes are an integral part of the financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Florence, Texas (the City) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the City are described below.

***Reporting Entity***

The City is a general law city in Williamson County, which incorporated in the State of Texas in 1929. The City operates under a Council form of government and provides such services as public safety, highways, streets, sanitation and water, judicial, community improvements, planning and zoning, culture-recreation, general administrative, and other services as are authorized by its code of ordinances and its citizens.

The City Council, which is elected at large, consists of a mayor and five Aldermen constituting an ongoing entity and is the level of government which has governing responsibilities over all activities related to the City. The City is not included in any other governmental reporting entity. Councilmen are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant indication of this ability is financial interdependency. Other indications of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

As required by the accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City has no component units that meet the requirements for blending as discussed above.

Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. Each discretely presented component unit has a September 30 fiscal year end. The component unit discussed below has been included based on the application of these criteria.

Florence Public Library - is a separate legal entity for which the primary government is financially accountable. This component unit has been discretely presented within the financial statements of the City because it exclusively benefits the primary government and the citizens of Florence. The component unit does not maintain separate financial statements other than those included in this report.

***Financial Reporting Model***

The City follows GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 establishes requirements and a reporting model for the annual financial reports of state and local governments. This Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

***Management's Discussion and Analysis***

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of a "management's discussion and analysis" (MD&A). This analysis is similar to the analysis the private sector provides in their annual reports.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Government-Wide Financial Statements***

The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services during the year, not just those received or paid in the current year or soon thereafter.

***Statement of Net Position***

The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments will report all capital assets, including infrastructure, in the government-wide Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be reported in three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

***Statement of Activities***

The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

***Fund Financial Statements***

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, and revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In the financial statements in this report, the funds are grouped into two broad fund categories as follows:

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Governmental Funds*

General Fund

This Fund is used to account for financial resources used for general operations. This is a budgeted fund and any fund balances are considered resources available for current operations. The General Fund is the principal fund of the City which accounts for all financial transactions not accounted for in other funds.

Debt Service Fund

This fund is used to account for the accumulation of financial resources for the payment of long-term bond debt principal and interest, paid principally from property taxes levied by the City. As of September 30, 2017, the debt service fund is not needed.

*Proprietary Funds*

Enterprise Fund

This Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the City is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City's Enterprise Fund is used to account for the operations that provide water and sanitation services to the public on a continuing basis.

***Fund Balance Classification***

The City follows GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable - includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.
- Restricted - includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Committed - includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to ordinances passed by the Council, the City's highest level of decision making authority. Commitments may be modified or rescinded only through ordinances approved by the Council.
- Assigned - includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.
- Unassigned - includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. The District reports all amounts that meet the unrestricted General Fund Balance Policy as unassigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

***Budgetary Comparison Schedules***

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets during the year for a variety of reasons. Under the current reporting model, governments provide budgetary comparison information in their annual reports including the original budget with the comparison of the final budget and actual results.

***Basis of Presentation***

The accounting and reporting policies of the City relating to the accounts included in the accompanying financial statements conform to U.S. generally accepted accounting principles as applicable to cities. U.S. generally accepted accounting principles for cities include those principles prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and appropriate pronouncements of the American Institute of Certified Public Accountants (AICPA).

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Basic Financial Statements***

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. These financial statements focus on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis, and are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, parks and recreation, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, parks and recreation, etc.) or a business-type activity. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The City does not allocate indirect expenses.

The governmental fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental column in the government-wide statements, a reconciliation is presented which briefly explains the adjustments necessary to reconcile fund financial statements with the governmental column of the government-wide presentation.

The focus of this reporting model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Basis of Accounting***

Basis of accounting refers to the method by which revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statement of net position and statement of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus and the full accrual basis. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net position or the statement of net position-proprietary funds.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sanitation function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

All revenue and expenditure recognition for governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. The City's revenues are recognized when they become measurable and available as current assets. Available means collectible within the current year or as soon enough thereafter to be used to pay liabilities of the current year. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal year. Utility franchise taxes, penalties and interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Proprietary fund-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total position. Proprietary funds distinguish operating revenues and expenses



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***Budgets***

Prior to August of each fiscal year, the mayor submits a proposed operating budget for the fiscal year commencing the following October 1 to the City Council. The operating budget includes proposed expenditures and means of financing them for the upcoming years, along with estimates for the current year and actual data for the preceding year. Public hearings are conducted to obtain taxpayer comments. Prior to September 30, the budget is legally enacted through passage by majority vote of the Council. The Council may authorize supplemental appropriations during the year.

The final amended budget is used in this report. Unused appropriations lapse at the end of the year unless carried forward to the next year by Council action. No encumbrances are recognized or recorded. The operating budget includes proposed expenditures for the General Fund. The City adopted the current year's budget on a line item basis.

***Cash and Cash Equivalents***

The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude restricted cash and cash equivalents. The carrying amounts for cash and cash equivalents approximates fair value.

***Receivables***

Receivables for the business-type activities include amounts due from customers for water and sanitation services. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts. Allowances are reported when accounts are proven to be uncollectible. Allowances for uncollectible accounts netted with accounts receivable were \$20,601 for the year ended September 30, 2017.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Capital Assets***

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements and the proprietary fund of the City. In accordance with GASB Statement No. 34, the City is not required to report infrastructure retroactively. Therefore, infrastructure has been capitalized prospectively beginning April 1, 2004. Depreciation is recorded on general fixed assets on a government-wide basis. All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Machinery and equipment	5-10 years
Buildings and improvements	10-40 years
Street improvements	10-20 years
Water and sewer system	10-50 years

***General Obligation Proprietary Fund Bonds***

At times, the Proprietary Fund provides the annual debt service requirements on certain general obligation proprietary fund bonds (not secured by system revenues) issued to finance system improvements. Since the Proprietary Fund provides the annual debt service on these general obligation bonds, the bonds are considered to be obligations of the Proprietary Fund and have been reported on the balance sheet of the Proprietary Fund, when applicable.

***Compensated Absences***

The City accrues a liability for compensated absences which meet the following criteria:

- (a) The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- (b) The obligation relates to rights that vest or accumulate.
- (c) Payment of the compensation is probable.
- (d) The amount can be reasonably estimated.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In accordance with the above criteria, the City has accrued a liability for vacation pay which has been earned but not taken by employees. As of the balance sheet date, the City expected that all of the liability for accrued vacation would be liquidated with expendable resources. Therefore, the liability for accrued vacation is reflected as a current liability in the financial statements for the year ended September 30, 2017.

***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 the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that 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 during the reporting year. Actual results could differ from those estimates.

***Risk Management***

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the year ended September 30, 2017, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the state as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. There were no significant reductions in commercial insurance coverage in the year ended September 30, 2017, and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**NOTE 2 - PROPERTY TAXES**

Property taxes are levied each October 1 on the assessed value listed as of the previous January 1 for all real business and personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due in January following the October 1 statement date. The lien date is January 1 of that year, and they become delinquent on February 1. Property tax revenues are considered available when they become due or past due and are considered a receivable within the current year when they are expected to be collected 60 days after the close of the year.

The tax assessment of October 1, 2016 sets a tax levy at \$0.70403 per \$100 of assessed valuation at 100 percent of market value, of which, \$0.050712 has been designated for debt services.

Delinquent property taxes estimated to be collectible within the next fiscal year are recognized as revenues. Other delinquent property taxes receivable at year end that are deemed to be ultimately collectible are recorded as deferred revenues.

**NOTE 3 - EMPLOYEE BENEFITS**

The City's policy is to account for the cost of employees' vacation time benefits as they are earned. At September 30, 2017, accrued vacation benefits related to employees of the General Fund totaling \$5,306 have been recorded on the General Fund. Accrued vacation benefits related to Proprietary Fund employees have been recorded on the Proprietary Fund in the amount of \$5,751.

**NOTE 4 - DEPOSITS**

The City maintains its cash deposits in interest bearing accounts which are insured to a limit of \$250,000 by the FDIC and the remainder is secured by pledged collateral. As of the balance sheet date, the City's and library's deposits totaled \$1,664,781, and the bank balance was \$1,770,508. At September 30, 2017 all of the City's balances are either insured by the FDIC or are collateralized by registered securities.

**NOTE 5 - CHANGES IN GOVERNMENTAL CAPITAL ASSETS**

Changes in governmental capital assets during the year ended September 30, 2017, were as follows:

	Balance October 1, 2016	Increases	Decreases	Balance September 30, 2017
Capital Assets Not Being Depreciated				
Land	\$ <u>142,966</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>142,966</u>
Other Capital Assets				
Machinery and equipment	383,796	28,384	-	412,180
Buildings and improvements	770,001	-	-	770,001
Street improvements	<u>681,039</u>	<u>-</u>	<u>-</u>	<u>681,039</u>
Total Other Capital Assets	1,834,836	28,384	-	1,863,220
Less accumulated depreciation	<u>(894,997)</u>	<u>(120,406)</u>	<u>-</u>	<u>(1,015,403)</u>
Other Capital Assets, Net	<u>939,839</u>	<u>(92,022)</u>	<u>-</u>	<u>847,817</u>
Total Capital Assets, Net of Depreciation	\$ <u>1,082,805</u>	\$ <u>(92,022)</u>	\$ <u>-</u>	\$ <u>990,783</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 12,436
Public safety	16,660
Public works	57,800
Municipal court	3,170
Parks and recreation	<u>30,340</u>
Total depreciation expense - Governmental Activities	\$ <u>120,406</u>

**NOTE 6 - CHANGES IN BUSINESS-TYPE CAPITAL ASSETS**

Changes in business-type capital assets during the year ended September 30, 2017, were as follows:

	Balance October 1, 2016	Increases	Decreases	Balance September 30, 2017
Capital Assets Not Being Depreciated				
Land	\$ <u>8,802</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>8,802</u>
Other Capital Assets				
Machinery and equipment	243,627	55,476	981	298,122
Water system	2,664,329	282,645	14,600	2,932,374
Sewer system	<u>2,024,637</u>	<u>-</u>	<u>-</u>	<u>2,024,637</u>
Total Other Capital Assets	4,932,593	338,121	15,581	5,255,133
Less accumulated depreciation	<u>(1,960,271)</u>	<u>(183,022)</u>	<u>(12,418)</u>	<u>(2,130,875)</u>
Other Capital Assets, Net	<u>2,972,322</u>	<u>155,099</u>	<u>3,163</u>	<u>3,124,258</u>
Total Capital Assets, Net of Depreciation	\$ <u>2,981,124</u>	\$ <u>155,099</u>	\$ <u>3,163</u>	\$ <u>3,133,060</u>

**NOTE 7 - CHANGES IN GOVERNMENTAL NON-CURRENT LIABILITIES**

The following is a summary of long-term debt transactions in the governmental activities for the year ended September 30, 2017:

	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017
Notes payable	\$ 22,663	\$ -	\$ 6,904	\$ 15,759
	\$ 22,663	\$ -	\$ 6,904	\$ 15,759

**NOTE 7 - CHANGES IN GOVERNMENTAL NON-CURRENT LIABILITIES (Continued)**

Long-term debt in the governmental activities consists of the following at September 30, 2017:

<u>Payee and Terms</u>	<u>Balance</u>
Note payable to Spirit of Texas Bank, secured by a vehicle, payable in monthly installments of \$633 including interest at 3.7%, with final payment due November 2019.	\$ <u>15,759</u>
Total	15,759
Less current portion	<u>(7,132)</u>
Total Long-Term Debt	\$ <u>8,627</u>

The annual requirements to amortize debt outstanding in the governmental activities as of September 30, 2017, are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 7,132	\$ 462	\$ 7,594
2019	7,400	194	7,594
2020	<u>1,227</u>	<u>5</u>	<u>1,232</u>
	\$ <u>15,759</u>	\$ <u>661</u>	\$ <u>16,420</u>

**NOTE 8 - CHANGES IN BUSINESS-TYPE NON-CURRENT LIABILITIES**

The following is a summary of long-term debt transactions in the business-type activities for the year ended September 30, 2017:

	Balance <u>October 1, 2016</u>	Additions	Reductions	Balance <u>September 30, 2017</u>
Notes payable	\$ 113,673	\$ -	\$ 4,526	\$ 109,147
Certificates of obligations	620,000	-	40,000	580,000
	\$ 733,673	\$ -	\$ 44,526	\$ 689,147

**NOTE 8 - CHANGES IN BUSINESS-TYPE NON-CURRENT LIABILITIES (Continued)**

Long-term debt in the business-type activities consists of the following at September 30, 2017:

<u>Payee and Terms</u>	<u>Balance</u>
Note payable to the Texas Department of Transportation, payable in annual installments of \$7,936 including interest at 3%, with final payment due July 2035.	\$ 109,147
Series 2014, certificates of obligations due in annual installments of \$40,000 beginning in April 2015, \$45,000 beginning April 2020, \$50,000 beginning April 2024, \$55,000 beginning April 2027, and \$60,000 due in April 2029, with interest at 3.28 percent.	<u>580,000</u>
Total	689,147
Less current portion	<u>(44,662)</u>
Total Long-Term Debt	\$ <u>644,485</u>

The annual requirements to amortize debt outstanding in the governmental activities as of September 30, 2017, are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 44,662	\$ 22,298	\$ 66,960
2019	44,801	20,847	65,648
2020	49,945	19,391	69,336
2021	50,094	17,766	67,860
2022	50,247	16,137	66,384
2023 to 2027	278,690	55,105	333,795
2028 to 2032	148,260	12,160	160,420
2033 to 2035	22,448	1,360	23,808
	\$ 689,147	\$ 165,064	\$ 854,211

**NOTE 9 - RESTRICTED FUND BALANCES**

Certain amounts have been segregated within the equity section of the governmental fund type balance sheets as restricted for specific purposes as imposed by external parties.



**NOTE 10 - INTERFUND TRANSACTIONS**

During the course of normal operations, the City has transactions between funds including expenditures and transfers of resources primarily to provide services. The financial statements for the governmental and proprietary type funds generally reflect some transactions as transfers and others as receivables and payables.

Interfund activity as of September 30, 2017, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Due To</u>	<u>Due From</u>
General Fund	\$ -	\$ 11,300	\$ -	\$ 2,083
Utility Fund	<u>11,300</u>	<u>-</u>	<u>2,083</u>	<u>-</u>
Total Operating Transfers	<u>\$ 11,300</u>	<u>\$ 11,300</u>	<u>\$ 2,083</u>	<u>\$ 2,083</u>

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**Plan Description**

The City of Florence, Texas participates as one of the 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

**Benefits Provided**

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with

**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

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

Plan provisions for the City were as follows:

	<u>Plan Year 2017</u>	<u>Plan Year 2016</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

**Employees covered by benefit terms**

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

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>8</u>
Total	<u>20</u>

**Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee’s 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 of Florence, Texas were required to contribute 5%, of their annual gross earnings during the fiscal year. The contribution rates for the City of Florence, Texas were

**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

3.83% and 3.23% in calendar years 2017 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$12,375, and were equal to the required contributions.

**Net Pension Liability**

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

**Actuarial assumptions**

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

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

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

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

**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

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 areas between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	<u>5.0%</u>	7.75%
Total	100.0%	

**Discount Rate**

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

**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

**Changes in the Net Pension Liability**

	Total Pension <u>Liability (a)</u>	Plan Fiduciary Net <u>Position (b)</u>	Net Pension <u>Liability (a)-(b)</u>
Balance at 12/31/15	\$ <u>347,875</u>	\$ <u>337,068</u>	\$ <u>10,807</u>
Changes for the year:			
Service cost	27,880	-	27,880
Interest	24,282	-	24,282
Difference between expected and actual experience	(14,071)	-	(14,071)
Changes of assumptions	-	-	-
Contributions-employer	-	9,864	(9,864)
Contributions-employee	-	15,268	(15,268)
Net investment income	-	22,785	(22,785)
Benefit payments, including refunds of emp. contributions	(4,164)	(4,164)	-
Administrative expense	-	(257)	257
Other changes	<u>-</u>	<u>(14)</u>	<u>14</u>
Net changes	<u>33,927</u>	<u>43,482</u>	<u>(9,555)</u>
Balance at 12/31/16	\$ <u><u>381,802</u></u>	\$ <u><u>380,550</u></u>	\$ <u><u>1,252</u></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% Decrease <u>5.75%</u>	Current Singe Rate <u>Assumption 6.75%</u>	1% Increase <u>7.75%</u>
\$ 76,271	\$ 1,252	\$ (58,806)

**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](http://www.tmr.com).

**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

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

For the year ended September 30, 2017, the City recognized pension expense of \$15,561.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and investment earnings \$	14,319	\$ -
Changes in actuarial assumptions	8,083	-
Differences between expected and actual economic experience	-	16,935
Contributions subsequent to the measurement date	<u>9,795</u>	<u>-</u>
Total	\$ <u>32,197</u>	\$ <u>16,935</u>

The City reported \$9,795 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$ 1,148
2018	4,008
2019	890
2020	(579)
2021	-
Thereafter	<u>-</u>
	\$ <u>5,467</u>

**NOTE 12 - SUPPLEMENTAL DEATH BENEFITS PLAN**

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

**NOTE 12 - SUPPLEMENTAL DEATH BENEFITS PLAN (Continued)**

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

Contributions

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

TMRS records indicate the percentages have been fully contributed by the City (as employer contributions) for the following fiscal years ending:

	<u>SDBF</u>
09/30/2017	0.03%
09/30/2016	0.03%
09/30/2015	0.03%
09/30/2014	0.02%
09/30/2013	0.02%

**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

*Grants*

The City participates in grant programs that 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, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)**

***Water Commitment***

The City has a contract in place with the City of Georgetown to purchase water from them for a period of forty years, which commenced on June 1, 2010. The City is also obligated to pay a minimum monthly charge, volume charges, committed water charge, and a reserved charge per the contract.

**NOTE 14 - SUBSEQUENT EVENTS**

Subsequent to year end the City purchased and financed three vehicles for approximately \$107,000. Also in May 2018, the Council approved donating the land and fire station building to the Williamson County Emergency Services District #7.

The City did not have any other subsequent events through July 6, 2018, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the fiscal year ended September 30, 2017.



REQUIRED SUPPLEMENTARY INFORMATION

**City of Florence, Texas**

*Budgetary Comparison Schedule  
General Fund*

*For the Year Ended September 30, 2017*

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
Revenues				
Tax collections, penalties and interest	\$ 285,500	\$ 285,500	\$ 288,967	\$ 3,467
Sales tax	187,000	187,000	250,330	63,330
Franchise tax	41,000	41,000	43,096	2,096
Municipal court fines	220,000	220,000	226,774	6,774
Police revenue	150	150	42	(108)
Pool revenue	1,000	1,000	-	(1,000)
Fees and permits	5,650	5,650	3,780	(1,870)
Interest	1,500	1,500	2,275	775
Contributions	28,800	28,800	8,506	(20,294)
Miscellaneous	<u>2,000</u>	<u>2,000</u>	<u>1,651</u>	<u>(349)</u>
Total Revenues	<u>772,600</u>	<u>772,600</u>	<u>825,421</u>	<u>52,821</u>
Expenditures				
General government	285,015	285,015	260,595	24,420
Parks and recreation	56,300	56,300	10,542	45,758
Public safety	194,635	194,635	214,499	(19,864)
Public works	8,500	8,500	23,625	(15,125)
Municipal court	<u>162,850</u>	<u>162,850</u>	<u>146,105</u>	<u>16,745</u>
Total Expenditures	<u>707,300</u>	<u>707,300</u>	<u>655,366</u>	<u>51,934</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>65,300</u>	<u>65,300</u>	<u>170,055</u>	<u>104,755</u>
Other Financing Sources (Uses):				
Transfers	<u>(71,300)</u>	<u>(71,300)</u>	<u>(11,300)</u>	<u>60,000</u>
Total Other Financing Sources (Uses)	<u>(71,300)</u>	<u>(71,300)</u>	<u>(11,300)</u>	<u>60,000</u>
Excess (Deficiencies) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	\$ <u>(6,000)</u>	\$ <u>(6,000)</u>	158,755	\$ <u>164,755</u>
Fund Balance - Beginning of Year			1,025,290	
Fund Balance - End of Year			\$ 1,184,045	