



**CITY OF MOUNT ENTERPRISE, TEXAS
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
SEPTEMBER 30, 2017**

**CITY OF MOUNT ENTERPRISE, TEXAS
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FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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David K. Godwin

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council
City of Mount Enterprise, Texas

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mount Enterprise, Texas as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit 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. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund,

and the aggregate remaining fund information of the City of Mount Enterprise, Texas, as of September 30, 2017, and the respective changes in financial position, and where applicable, cash flows and respective budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, budgetary comparison information on page 21, and the Texas Municipal Retirement System schedules on pages 48 through 49 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Emphasis of Matter Regarding Going Concern

As discussed in Note 2 to the financial statements, the City has suffered from budgeted revenue shortfalls and accumulated a general fund deficit. The City's evaluation of the events and conditions and plans to mitigate these matters are also described in Note 2. My opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated September 25, 2018, on my consideration of the City of Mount Enterprise, Texas's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 of Mount Enterprise, Texas's internal control over financial reporting and compliance.



David K. Godwin
Certified Public Accountant

Tyler, Texas
September 25, 2018

Management's Discussion and Analysis



City of Mount Enterprise Mount Enterprise Municipal Court

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Management's Discussion and Analysis For Year Ended September 30, 2017 (Unaudited)

The Management Discussion and Analysis of the City of Mount Enterprise's (City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2017. Please read in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

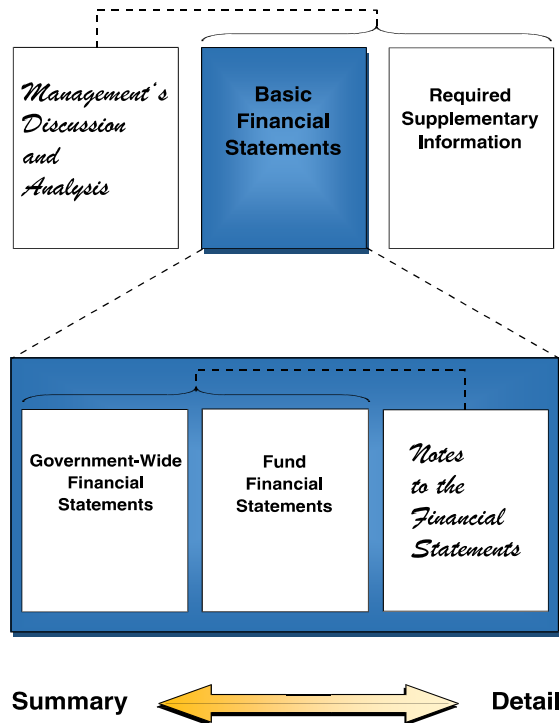
- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$1,517,462 (Net Position). Of this amount, \$55,712 (Unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net position decreased by \$31,975.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$27,023. (\$23,682) is unassigned and available for use within the City's fund designation and fiscal policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was (\$23,682), or (6.5%) of the total general fund expenditures.
- The City's bonds payable decreased by \$14,484 due to principal repayments on debt in 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City’s annual report consists of a series of financial statements, notes to those statements, and other 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.
 - Proprietary Fund Statements offer financial information about the internal service fund used to report activities that provide services to organizations within the City.

Figure A-1. Required Components of the City’s Annual Financial Report



The basic financial statements include notes that explain information contained within 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 (above) shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 (next page) summarizes the major features of the City’s financial statements, including the portion of the City’s government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

FIGURE A-2 MAJOR FEATURES OF THE CITY'S GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS			
Type of Statement	Government-Wide	Governmental Funds	Proprietary Funds
Scope	Entire City's (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses: Wastewater
Required financial statements	• Statement of net position	• Balance sheet	• Statement of net position
	• Statement of activities	• Statement of revenues, expenditures and changes in fund balances	• Statement of revenues, expenses and changes in fund net position • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of flow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

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 it has changed. Net position, the difference between the City's assets and liabilities, 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, you need to consider additional non-financial factors such as changes in the City's tax base.

The Government-Wide Financial Statements of the City include the governmental activities. The City's basic activities include general government, public safety, highways and streets, public services and culture and recreation. Fines, forfeitures and taxes 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 used by the City to track specific sources and uses of funding for specified activities.

- 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 two types 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 can readily be converted to cash flow in and out and (2) the year-end balances that are available for spending. Consequently, the Governmental Fund Statements provide a detailed short-term view that helps you determine the level of financial resources that can be spent in the near term 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 Fund Statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary funds**—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the Government-Wide Statements, provide both long-term and short-term financial information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$1,517,462 as of September 30, 2017.

The largest portion of the City's net position, 93%, or \$1,411,045, reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any outstanding debt used in acquiring those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to repay these liabilities.

CITY OF MOUNT ENTERPRISE'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 94,376	\$ 103,790	\$ 73,854	\$ 64,614	\$ 168,230	\$ 168,404
Capital Assets	220,746	245,406	1,221,944	1,261,068	1,442,690	1,506,474
Total Assets	<u>315,122</u>	<u>349,196</u>	<u>1,295,798</u>	<u>1,325,682</u>	<u>1,610,920</u>	<u>1,674,878</u>
 Total Deferred Outflows of Resources	 <u>10,881</u>	 <u>17,778</u>	 <u>-</u>	 <u>-</u>	 <u>10,881</u>	 <u>17,778</u>
Non-Current Liabilities	8,482	8,825	16,286	31,645	24,768	40,470
Other Liabilities	59,311	83,940	16,409	14,713	75,720	98,653
Total Liabilities	<u>67,793</u>	<u>92,765</u>	<u>32,695</u>	<u>46,358</u>	<u>100,488</u>	<u>139,123</u>
 Total Deferred Inflows of Resources	 <u>3,851</u>	 <u>4,096</u>	 <u>-</u>	 <u>-</u>	 <u>3,851</u>	 <u>4,096</u>
Net Position:						
Invested in Capital Assets,						
Net of Related Debt	220,746	245,406	1,190,299	1,214,939	1,411,045	1,460,345
Restricted	15,872	19,020	-	-	15,872	19,020
Assigned	34,833	10,983	-	-	34,833	10,983
Unrestricted	<u>(17,092)</u>	<u>(5,296)</u>	<u>72,804</u>	<u>64,385</u>	<u>55,712</u>	<u>59,089</u>
Total Net Position	<u>\$ 254,359</u>	<u>\$ 270,113</u>	<u>\$ 1,263,103</u>	<u>\$ 1,279,324</u>	<u>\$ 1,517,462</u>	<u>\$ 1,549,437</u>

A portion of net position, \$6,681, is restricted for municipal court security and technology enhancements in addition to \$9,191 held for continuing education under the Law Enforcement Officer Standards and Education (LEOSE) fund. The remaining balance of unrestricted net position, \$55,712, may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2017, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its business-type activities. In the prior fiscal year, the City also reported positive balances in all three categories of net position.

Analysis of the City's Operations - Overall the City had a decrease in net position of \$31,975.

Governmental Activities: Net position for the governmental activities decreased by \$15,754. Net position invested in capital assets, net of related debt, decreased by \$63,784 due to depreciation expenses. The remaining change in net position is due to lower debt service requirements and related transfers to the Wastewater fund.

Total revenues for the governmental activities increased from the previous year by \$15,934, primarily due to fine and forfeiture collections along with other miscellaneous collections. General revenue increased \$7,298 during 2017, primarily due to the reason previously stated outweighing increases in sales tax collections.

Business-type Activities: Net position from business-type activities decreased by \$16,221. This decrease was primarily due to operating expenditures exceeding customer service charges.

The following table provides a summary of the City's operations for the year ended September 30, 2017, with comparative totals for the year ended September 30, 2016.

CITY OF MOUNT ENTERPRISE'S CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Operating Revenues:						
Charges for Services	\$ 168,697	\$ 160,061	\$ 84,973	\$ 66,571	\$ 253,670	\$ 226,632
Other	-	-	430	-	430	-
General Revenues:						
Taxes	206,518	205,285	-	-	206,518	205,285
Interest Income	267	80	-	-	267	80
Grant	2,315	-	-	-	2,315	-
Miscellaneous	7,729	4,166	-	-	7,729	4,166
Total Revenues	385,526	369,592	85,403	66,571	470,929	436,163
Expenses:						
General Government	394,263	395,763	-	-	394,263	395,763
Water and Sewer	-	-	106,207	95,090	106,207	95,090
Total Expenses	394,263	395,763	106,207	95,090	500,470	490,853
Increase (Decrease) in Total Revenues	(8,737)	(26,171)	(20,804)	(28,519)	(29,541)	(54,690)
NONOPERATING REVENUES (EXPENSES)						
Interest Income	-	-	27	21	27	21
Bond Interest Expense	-	-	(2,461)	(3,373)	(2,461)	(3,373)
Total Non-operating Expense	-	-	(2,434)	(3,352)	(2,434)	(3,352)
OTHER FINANCING SOURCES (USES)						
Operating Transfers from Other Funds	11,086	1,115	17,017	41,568	28,103	42,683
Operating Transfers to Other Funds	(18,103)	(42,683)	(10,000)	-	(28,103)	(42,683)
Total Other Financing Sources (Uses)	(7,017)	(41,568)	7,017	41,568	-	-
Change in Net Position	(15,754)	(67,739)	(16,221)	9,697	(31,975)	(58,042)
Net Position – Beginning	270,113	337,852	1,279,324	1,269,627	1,549,437	1,607,479
Net Position – Ending	\$ 254,359	\$ 270,113	\$ 1,263,103	\$ 1,279,324	\$ 1,517,462	\$ 1,549,437

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$27,023; of this total amount, \$23,682, constitutes a deficit in unassigned fund balance.

In the general fund, the City’s original budget planned for an increase in the fund balance on a budget basis.

Actual revenues in all categories were lower than the final budgeted amounts by a total of \$60,133. Actual expenditures not including transfers were higher than final budgeted amounts by a total of \$14,846.

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

CAPITAL ASSETS

The City’s investment in capital assets for its governmental and business-type activities as of September 30, 2017, amounts to \$1,411,045 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, vehicles, and infrastructure. The total decrease in capital assets for the current fiscal year was \$63,784, or (4.4%).

There were no major capital asset additions during fiscal year 2017.

CAPITAL ASSETS AT YEAR-END AND ACCUMULATED DEPRECIATION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 12,910	\$ 12,910	\$ 128,545	\$ 128,545	\$ 141,455	\$ 141,455
Building	68,030	68,030	-	-	68,030	68,030
Police Vehicle & Equipment	83,058	83,058	-	-	83,058	83,058
Wastewater System	-	-	1,564,964	1,564,964	1,564,964	1,564,964
Infrastructure	648,846	648,846	-	-	648,846	648,846
Construction in Progress	-	-	-	-	-	-
Accumulated Depreciation	<u>(592,098)</u>	<u>(567,438)</u>	<u>(471,565)</u>	<u>(432,441)</u>	<u>(1,063,663)</u>	<u>(999,879)</u>
Total	<u>\$ 220,746</u>	<u>\$ 245,406</u>	<u>\$ 1,221,944</u>	<u>\$ 1,261,068</u>	<u>\$ 1,442,690</u>	<u>\$ 1,506,474</u>

Additional information on the City’s capital assets can be found in Note 2 on page 36 in the notes of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total bonded debt of \$31,645 comprised solely of bonds secured by water and sewer revenues.

OUTSTANDING DEBT AT YEAR-END BONDS PAYABLE

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue Bonds Payable	\$ -	\$ -	\$ 31,645	\$ 46,129	\$ 31,645	\$ 46,129
Total	\$ -	\$ -	\$ 31,645	\$ 46,129	\$ 31,645	\$ 46,129

During the fiscal year, the City's total bonded debt decreased by \$14,484, or 31%. The decrease was primarily due to the following:

- Annual debt principal payments made in March and September for the water and sewer debt, series 2004.

Additional information on the City's long term-debt can be found in Note 2 on page 37 in the notes of this report.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City of Mount Enterprise, Attn: City Administrator at 103 W. Gregg Street, Mount Enterprise, Texas 75681, or call (903) 822-3269.

Basic Financial Statements

Government-Wide Financial Statements

**CITY OF MOUNT ENTERPRISE TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 53,931	\$ 32,650	\$ 86,581
Receivables (net of allowances):			
Sales taxes	24,107	-	24,107
Property taxes	8,042	-	8,042
Franchise taxes	6,287	-	6,287
Fines and forfeitures	2,009	-	2,009
Other	-	8,390	8,390
Due from other funds	-	32,814	32,814
Capital assets:			
Land and other non-depreciated assets	12,910	128,545	141,455
Other capital assets - net of depreciation	207,836	1,093,399	1,301,235
Total Assets	315,122	1,295,798	1,610,920
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to pensions subsequent to the measurement date	7,798	-	7,798
Differences between projected and actual investment earnings on pensions	3,083	-	3,083
Total Deferred Outflows of Resources	10,881	-	10,881
LIABILITIES			
Accounts payable and accrued liabilities	26,497	1,050	27,547
Due to other funds	32,814	-	32,814
Long-term liabilities:			
Due within one year	-	15,359	15,359
Due in more than one year	8,482	16,286	24,768
Total Liabilities	67,793	32,695	100,488
DEFERRED INFLOWS OF RESOURCES			
Differences between expected and actual economic experience on pensions	3,851	-	3,851
Total Deferred Inflows of Resources	3,851	-	3,851
NET POSITION			
Investment in capital assets, net of related debt	220,746	1,190,299	1,411,045
Restricted for municipal court	15,872	-	15,872
Assigned for retirement of long-term debt	34,833	-	34,833
Unrestricted	(17,092)	72,804	55,712
Total Net Position	\$ 254,359	\$ 1,263,103	\$ 1,517,462

The notes to the financial statements are an integral part of this statement.

**CITY OF MOUNT ENTERPRISE TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

FUNCTIONS / PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Primary government:						
Governmental activities:						
Administration	\$ 143,710	\$ -	\$ -	\$ (143,710)	\$ -	\$ (143,710)
Municipal court	125,274	168,097	-	42,823	-	42,823
Police department	98,051	-	-	(98,051)	-	(98,051)
Sanitation	-	600	-	600	-	600
Highways and streets	25,319	-	2,315	(23,004)	-	(23,004)
Parks and recreation	1,909	-	-	(1,909)	-	(1,909)
Total governmental activities	394,263	168,697	2,315	(223,251)	-	(223,251)
Business-type activities:						
Water and sewer	108,668	84,973	-	-	(23,695)	(23,695)
Total business-type activities	108,668	84,973	-	-	(23,695)	(23,695)
Total primary government	\$ 502,931	\$ 253,670	\$ 2,315	(223,251)	(23,695)	(246,946)
General revenues:						
Sales taxes				137,890	-	137,890
Property taxes				42,846	-	42,846
Franchise taxes				25,782	-	25,782
Investment earnings				267	27	294
Miscellaneous local and intermediate revenue				7,729	430	8,159
Transfers				(7,017)	7,017	-
Total general revenues and transfers				207,497	7,474	214,971
Change in net position				(15,754)	(16,221)	(31,975)
Net position - beginning				270,113	1,279,324	1,549,437
Net position - ending				\$ 254,359	\$ 1,263,103	\$ 1,517,462

The notes to the financial statements are an integral part of this statement.

Fund Financial Statements

**CITY OF MOUNT ENTERPRISE TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017**

	MAJOR FUNDS		TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	DEBT SERVICE FUND	
ASSETS			
Cash	\$ 19,098	\$ 34,833	\$ 53,931
Receivables (net of allowances):			
Sales taxes	24,107	-	24,107
Property taxes	-	8,042	8,042
Franchise taxes	6,287	-	6,287
Fine and forfeitures	2,009	-	2,009
Total assets	\$ 51,501	\$ 42,875	\$ 94,376
LIABILITIES			
Accounts payable	\$ 26,497	\$ -	\$ 26,497
Due to other funds	32,814	-	32,814
Total liabilities	59,311	-	59,311
DEFERRED INFLOWS (OF RESOURCES)			
Property taxes	-	8,042	8,042
Total deferred inflows	-	8,042	8,042
FUND BALANCES			
Restricted fund balance:			
Municipal court	15,872	-	15,872
Assigned fund balance:			
Retirement of long-term debt	-	34,833	34,833
Unassigned fund balance	(23,682)	-	(23,682)
Total fund balances	(7,810)	34,833	27,023
Total liabilities, deferred inflows and fund balances	\$ 51,501	\$ 42,875	\$ 94,376

The notes to the financial statements are an integral part of this statement.

**CITY OF MOUNT ENTERPRISE TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Total fund balances - governmental funds	\$ 27,023
Capital assets used in governmental activities are not financial resources and, therefore, are not reported on the governmental funds balance sheet.	220,746
Long-term liabilities are not due and payable in the current period and, therefore, are not reported on the governmental funds balance sheet.	(8,482)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	7,030
Delinquent property taxes receivable is a long-term asset and not available to pay for current period expenditures and therefore is deferred in the funds.	<u>8,042</u>
Net position of governmental activities	<u>\$ 254,359</u>

CITY OF MOUNT ENTERPRISE TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	MAJOR FUNDS		TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	DEBT SERVICE FUND	
REVENUES			
Taxes:			
Sales	\$ 137,890	\$ -	\$ 137,890
Property	-	41,919	41,919
Franchise	25,782	-	25,782
Fines and forfeitures	168,097	-	168,097
Sanitation services	600	-	600
Interest income	233	34	267
Grant	2,315	-	2,315
Miscellaneous	7,729	-	7,729
	<u>342,646</u>	<u>41,953</u>	<u>384,599</u>
Total revenues			
	<u>342,646</u>	<u>41,953</u>	<u>384,599</u>
EXPENDITURES			
Administration	139,021	-	139,021
Municipal court	125,274	-	125,274
Police department	87,992	-	87,992
Highways and streets	9,098	-	9,098
Parks and recreation	1,909	-	1,909
	<u>363,294</u>	<u>-</u>	<u>363,294</u>
Total expenditures			
	<u>363,294</u>	<u>-</u>	<u>363,294</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,648)</u>	<u>41,953</u>	<u>21,305</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers from other funds	11,086	-	11,086
Operating transfers to other funds	-	(18,103)	(18,103)
	<u>11,086</u>	<u>(18,103)</u>	<u>(7,017)</u>
Total other financing sources (uses)			
	<u>11,086</u>	<u>(18,103)</u>	<u>(7,017)</u>
Net change in fund balances	(9,562)	23,850	14,288
Fund balances - beginning of year	1,752	10,983	12,735
	<u>1,752</u>	<u>10,983</u>	<u>12,735</u>
Fund balances - end of year	<u>\$ (7,810)</u>	<u>\$ 34,833</u>	<u>\$ 27,023</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF MOUNT ENTERPRISE TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	\$ 14,288
The depreciation of capital assets used in governmental activities is not reported in the funds.	(24,660)
Net delinquent property tax collections provide current financial resources to the funds (but has no effect on net assets).	927
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(6,309)</u>
Change in net position of governmental activities	<u><u>\$ (15,754)</u></u>

**CITY OF MOUNT ENTERPRISE TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		(UNFAVORABLE)
REVENUES				
Taxes:				
Sales	\$ 123,340	\$ 123,340	\$ 137,890	\$ 14,550
Franchise	26,930	26,930	25,782	(1,148)
Fines and forfeitures	251,367	251,367	168,097	(83,270)
Sanitation services	-	-	600	600
Interest income	98	98	233	135
Miscellaneous	1,024	1,024	7,729	6,705
Total revenues	<u>402,759</u>	<u>402,759</u>	<u>342,646</u>	<u>(60,113)</u>
EXPENDITURES				
Administration	124,037	124,037	139,021	(14,984)
Municipal court	124,757	124,757	125,274	(517)
Police department	88,393	88,393	87,992	401
Highways and streets	9,915	9,915	9,098	817
Parks and recreation	1,346	1,346	1,909	(563)
Total expenditures	<u>348,448</u>	<u>348,448</u>	<u>363,294</u>	<u>(14,846)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>54,311</u>	<u>54,311</u>	<u>(20,648)</u>	<u>(74,959)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	892	892	11,086	10,194
Total other financing sources	<u>892</u>	<u>892</u>	<u>11,086</u>	<u>10,194</u>
Excess (deficiency) of revenues & other sources over expenditures & other (uses)	<u>\$ 55,203</u>	<u>\$ 55,203</u>	(9,562)	<u>\$ (64,765)</u>
Fund balance - beginning of year			<u>1,752</u>	
Fund balance - end of year			<u>\$ (7,810)</u>	

The notes to the financial statements are an integral part of this statement.

**CITY OF MOUNT ENTERPRISE TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
ASSETS	<u>WASTEWATER</u>
Current assets:	
Cash	\$ 32,650
Accounts receivable (net)	8,390
Due from general fund	<u>32,814</u>
Total current assets	<u>73,854</u>
Noncurrent assets:	
Capital assets:	
Land	128,545
Wastewater system	1,564,964
Less: accumulated depreciation	<u>(471,565)</u>
Total noncurrent assets	<u>1,221,944</u>
Total assets	<u>\$ 1,295,798</u>
LIABILITIES	
Current liabilities:	
Accrued interest	\$ 157
Accounts payable	893
Certificates of obligation	<u>15,359</u>
Total current liabilities	16,409
Non-current liabilities:	
Certificates of obligation	<u>16,286</u>
Total liabilities	<u>32,695</u>
NET POSITION	
Investment in capital assets, net of related debt	1,190,299
Unrestricted	<u>72,804</u>
Total net position	<u>1,263,103</u>
Total net position and liabilities	<u>\$ 1,295,798</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MOUNT ENTERPRISE TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WASTEWATER</u>
OPERATING REVENUES	
Service charges	\$ 84,973
Other	<u>430</u>
Total operating revenues	<u>85,403</u>
OPERATING EXPENSES	
Contract labor	17,435
Depreciation	39,124
Maintenance	20,434
Utilities	9,641
Chemicals and supplies	13,088
Permits and licenses	3,673
Other	<u>2,812</u>
Total operating expenses	<u>106,207</u>
Operating loss	<u>(20,804)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	27
Bond interest expense	<u>(2,461)</u>
Total nonoperating expenses	<u>(2,434)</u>
Loss before operating transfers	<u>(23,238)</u>
TRANSFERS	
Transfers in	17,017
Transfers out	<u>(10,000)</u>
Total transfers	<u>7,017</u>
Change in net position	(16,221)
Net position - beginning of year	<u>1,279,324</u>
Net position - end of year	<u><u>\$ 1,263,103</u></u>

The notes to the financial statements are an integral part of this statement.

**CITY OF MOUNT ENTERPRISE TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND <u>WASTEWATER</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 82,789
Other cash receipts	430
Payments to suppliers	<u>(66,262)</u>
Net cash provided by operating activities	<u>16,957</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers-in from other funds	17,017
Transfers-out to other funds	<u>(10,000)</u>
Net cash provided by non-capital financing activities	<u>7,017</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal repayments on debt	(14,484)
Interest on debt	<u>(2,461)</u>
Net cash used in capital and related financing activities	<u>(16,945)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>27</u>
Net cash provided by investing activities	<u>27</u>
Net increase in cash and cash equivalents	7,056
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>25,594</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 32,650</u></u>
Reconciliation of Operating Loss to Net Cash provided by Operating Activities	
Operating loss	\$ (20,804)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	39,124
Changes in assets and liabilities:	
Increase in accounts payable	893
Decrease in accrued interest	(72)
Increase in accounts receivable	<u>(2,184)</u>
Total adjustments	<u>37,761</u>
Net cash provided by operating activities	<u><u>\$ 16,957</u></u>

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The financial statements of the City of Mount Enterprise (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Boards (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2017.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. Governmental activities include programs supported primarily by taxes and other intergovernmental revenues. Business-type activities include operations that rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. 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 governmental funds are reported as separate columns in the fund financial statements.

Interfund activities between governmental funds appear as due to/due froms on the governmental fund balance sheet and as other resources and other uses on the governmental fund statement of revenues, expenditures and changes in fund balance. All interfund transactions between governmental funds are eliminated on the government-wide statements.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Government-Wide and Fund Financial Statements - continued

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. All other expenses are non-operating.

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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue 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. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year-end.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

The proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

The City reports the following major governmental funds:

General Fund – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The City accounts for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.

The City reports the following major proprietary fund:

Wastewater Fund – This fund is utilized for the operations of the wastewater system provided by the City for the community.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

For purposes of measuring the net pension asset/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.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

The City's cash and cash equivalents includes amounts on hand and in demand deposits.

Investments

State statutes and the City's investment policy authorize the City to invest in obligations of the U.S. Treasury, State of Texas obligations, certificates of deposit, commercial paper, corporate bonds, repurchase agreements, and mutual funds.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "Due to/from Other Funds" (i.e. the current portion of the interfund loan) or "Advances to/from Other Funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "Due to/from Other Funds."

Property Taxes Receivable are shown net of an allowance for uncollectibles. The allowance is equal to zero (0) percent of delinquent property taxes receivable at September 30, 2017. The City's ad valorem taxes are levied on October 1 but do not become due until January 1 of the following year. Taxes become past due February 1 and become delinquent June 30. The City's taxes become a lien on real property on the due date of January 1. This lien is effective until the taxes are paid.

Long-Term Liabilities

In the government-wide 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.

In the fund financial statements, governmental fund types report the face amount of the debt issued as Other Financing Sources and debt payments as Expenditures.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance-continued

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads and bridges), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of three (3) years. Such assets are recorded at historical cost where records are available or at an estimated fair market value at the date of acquisition where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation. The City reports infrastructure assets on a network and subsystem basis. Accordingly the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide statements regardless of their amount.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by the governmental activities), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Additional capital assets, constructed or acquired each period, are capitalized and reported at historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, equipment and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Wastewater System	40
Infrastructure	40
Building	15
Vehicles	7
Machinery & Equipment	3-7

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, and Net Position or Equity - continued

Fund Balance Classification

During fiscal year ending 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the City Council, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the City Council takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the City Council intends to use for a specific purpose. Intent can be expressed by the Mayor or the City Administrator, through which the City Council has delegated the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). When it is appropriate for fund balance to be assigned, the City Council designated the authority to the Mayor and the City Administrator (such as the purchase of fixed assets, construction, debt service, or for other purposes).

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, and Net Position or Equity - continued

Compensated Absences

Compensated vacations are granted to all full-time regular employees of the City. After the completion of twelve (12) months of employment, five (5) days vacation is granted for employees. Regular employees then earn ten (10) days of vacation after two (2) years employment. Law enforcement personnel earn 9.334 hours of vacation per month in the first year of employment and 12.667 hours of vacation per month, thereafter. Vacation leave may not be carried from one year to the next. Upon termination of employment, any earned and unused vacation is paid at the current rate of pay.

Sick leave is accrued at the rate of seven (7) days per year. Sick leave accrues from year to year up to a maximum of ninety (90) days. Upon termination of employment, any earned and unused sick leave is not paid.

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 or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualifies for reporting in this category. One item is the deferred outflow of resources – pension contributions paid after the measurement date. The second item is the deferred outflow of resources due to differences between projected and actual investment earnings on pensions. Investment gains and losses are recognized in pension expense over a period of five years.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports deferred inflows of resources due to a difference between expected and actual economic experience on pensions which are recognized over the average remaining service life for all members. This is reported in the government-wide and proprietary funds statements of net position. Finally, the City has one item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the items are unavailable revenue, and are reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund considers all cash and certificates of deposit to be cash equivalents.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Stewardship, Compliance, and Accountability

Budgetary Data

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund. The City holds a public hearing on the proposed budget prior to its adoption. All appropriations lapse at fiscal yearend.

The budget is legally enacted and once approved, can only be amended by approval of a majority of the Council members. Amendments are presented to the Council at the City's regular meetings.

Expenditures in Excess of Budgeted Amounts

There were no expenditures in excess of appropriations for the General Fund at the end of the fiscal year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: DETAILED NOTES ON ALL FUNDS

Accumulated Deficit and Plans

As of September 30, 2017, the City had accumulated a General Fund deficit of \$7,810 and began transferring funds from the Wastewater fund to cover operating expenditures. The fund deficit was caused by a budget shortfall of \$83,270 from municipal court fines & forfeitures, as shown on Exhibit 7.

In May 2018, the City noted cash funds in the amount of \$53,384 had been transferred from the Wastewater fund during the previous five month period to cover existing governmental operating expenditures. From February to April 2018 (3 months), Wastewater cash balances were depleted down to \$21,685, by 52%. Municipal court revenues were not adequate to cover budgeted expenditures. Seven months into the 2018 fiscal year, the municipal court was behind the adopted budget in excess of \$200,000; unaudited revenue for the municipal court fines and forfeitures amounted to \$49,828 as of April 30, 2018. The City further incurred a capital expenditure for the purchase of a new police vehicle on January 22, 2018 and had not decreased spending to balance incoming revenue.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Accumulated Deficit and Plans - continued

As of August 2018, the City aggressively limited non-vital operating expenditures to alleviate the budget shortfall and cash flow deficiency. The City canceled the police vehicle purchase, limited commuting expenditures, reduced salaries of employees and suspended payments to council members, cut non-essential training and other various expenditures. The City's cash flow deficiency has stabilized and transfers from the Wastewater fund have ceased. The City is pursuing tax increases to further stabilize financial position and allow for adequate cash reserves. Projections indicate that cash needs will be met throughout the 2018-2019 fiscal year.

Deposits

The City's balances were completely covered by federal deposit insurance at September 30, 2017. The City's deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized.

Deposits categorized by level of risk are as follows:

<u>Cash & Cash Equivalents</u>	Bank	<u>Category</u>			Carrying
	Balance	1	2	3	Amount
General fund	\$ 19,098	\$ 19,098	\$ -	\$ -	\$ 19,098
Debt service fund	34,833	34,833	-	-	34,833
Proprietary fund	32,650	32,650	-	-	32,650
Total	<u>\$ 86,581</u>	<u>\$ 86,581</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,581</u>

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Property Tax

The assessed valuation (net of exemptions) was \$16,992,430 for 2017 (with taxes due January 1, 2017) levied at a rate of \$0.242981 per hundred-dollar valuation.

Receivables

Receivables as of year-end for the City's major government funds and business-type funds, including applicable allowances for uncollectible accounts, are as follows:

<u>Receivables</u>	<u>Primary Government</u>		<u>Business-Type</u>	<u>Total</u>
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Wastewater Fund</u>	
Accounts	\$ -	\$ -	\$ 8,390	\$ 8,390
Fines	506,438	-	-	506,438
Taxes	30,394	8,042	-	38,436
Gross receivables	536,832	8,042	8,390	553,264
Less: Allowance for uncollectables	(504,429)	-	-	(504,429)
Total	<u>\$ 32,403</u>	<u>\$ 8,042</u>	<u>\$ 8,390</u>	<u>\$ 48,835</u>

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Capital Assets

The following is a summary of the changes in the capital assets during the fiscal year:

<u>Primary Government</u>	<u>Balance 9/30/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2017</u>
<i>Governmental activities</i>				
<u>Non-depreciable assets:</u>				
Land	\$ 12,910	\$ -	\$ -	\$ 12,910
<u>Depreciable assets:</u>				
Buildings & improvements	68,030	-	-	68,030
Infrastructure	648,846	-	-	648,846
Police vehicle & equipment	83,058	-	-	83,058
Accumulate depreciation	<u>(567,438)</u>	<u>(24,660)</u>	<u>-</u>	<u>(592,098)</u>
Governmental activities, net	<u>245,406</u>	<u>(24,660)</u>	<u>-</u>	<u>220,746</u>
<i>Business-type activities</i>				
<u>Non-depreciable assets:</u>				
Land	128,545	-	-	128,545
<u>Depreciable assets:</u>				
Wastewater system	1,564,964	-	-	1,564,964
Accumulate depreciation	<u>(432,441)</u>	<u>(39,124)</u>	<u>-</u>	<u>(471,565)</u>
Business-type activities, net	<u>1,261,068</u>	<u>(39,124)</u>	<u>-</u>	<u>1,221,944</u>
Capital assets, net	<u>\$ 1,506,474</u>	<u>\$ (63,784)</u>	<u>\$ -</u>	<u>\$ 1,442,690</u>

Depreciation expense for governmental activities was charged to Functions/Programs as follows:

Highways and streets	\$ 16,221
Administration	1,535
Police department	<u>6,904</u>
Total depreciation expense	<u>\$ 24,660</u>

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Long-Term Obligations

Certificates of Obligation

The City issues certificates of obligation to provide funds for the acquisition and construction of major capital facilities. Certificates of obligation have been issued for business-type activities. These debt obligations are reported in the proprietary funds because they relate to assets acquired for the Wastewater Fund. The debt is being paid by a property tax levy. Semiannually, funds are transferred from the Debt Service Fund to the Wastewater Fund to make payments on the obligations.

Certificates of obligation are direct obligations and pledge full faith and credit of the City. Certificates of obligation currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Original Issue Amount</u>
<i>Business-type activities:</i>		
2004 City of Mount Enterprise, Texas Certificate of Obligation	5.95%	\$ 167,440
Total certificates of obligation		\$ 167,440

The changes in the general long-term debt as of September 30, 2017 are as follows:

	<u>Balance 9/30/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 9/30/2017</u>	<u>Due Within One Year</u>
<i>Business-type activities:</i>					
Certificates of obligation	\$ 46,129	\$ -	\$ 14,484	\$ 31,645	\$ 15,359
Total	\$ 46,129	\$ -	\$ 14,484	\$ 31,645	\$ 15,359

Annual debt service requirements to maturity for certificates of obligation are as follows:

<u>Year Ending September 30</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	15,359	1,658	17,017
2019	16,286	729	17,015
Total	\$ 31,645	\$ 2,387	\$ 34,032

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. There have been no significant reductions in insurance coverage during the year ending September 30, 2017.

The City is a member of the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool, participating in workers' compensation, general liability, law enforcement liability, errors and omissions liability, automobile liability, automobile physical damage, real and personal property coverage, and employee health insurance.

Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the city expects such amounts, if any, to be immaterial. No reportable litigation was pending against the City as of September 30, 2017.

Texas Municipal Retirement System Plan

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

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

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

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. Plan provisions for the City were as follows:

Plan Year	2017	2016
Employee deposit rate	5%	5%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25

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	-
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>2</u>
Total	<u>2</u>

Contributions – The contribution rate 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) 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 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 2.25% and 3.26% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$2,923, and were equal to the required contributions.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

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 male rates multiplied by 109% and female rates multiplied by 103%. For the City as a small participant city, the base table is then multiplied by a factor of 85.0% based on the experience of the City in comparison to the group as a whole.

A further multiplier is applied depending on an employee’s classification: 1) Fire – 63%, 2) Police – 88%, or 3) Other – 108%. This adds an additional layer of conservatism. The rates are based on a fully generational basis by scale BB to account for future mortality improvements. For disable annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

Actuarial assumptions – continued:

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	100.00%	

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 MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

Changes in the net pension liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	\$ 173,971	\$ 165,146	\$ 8,825
Changes for the year:			
Service cost	\$ 8,049	\$ -	\$ 8,049
Interest	12,015	-	12,015
Change of benefit terms	-	-	-
Difference between expected and actual experience	(1,534)	-	(1,534)
Changes of assumptions	-	-	-
Contributions - employer	-	2,181	(2,181)
Contributions - employee	-	5,652	(5,652)
Net investment income	-	11,173	(11,173)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	(126)	126
Other changes	-	(7)	7
Net changes	18,530	18,873	(343)
Balance at 12/31/2016	\$ 192,501	\$ 184,019	\$ 8,482

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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate 5.75%	Current Rate Assumption 6.75%	1% Increase in Discount Rate 7.75%
City's net pension liability (asset)	\$ 28,601	\$ 8,482	\$ (9,049)

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.TMRS.com.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions:

For the year ended September 30, 2017, the City recognized pension expense of \$6,309.

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
Differences between expected and actual economic experience	\$ -	\$ 3,851
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	3,083	-
Contributions subsequent to the measurement date	7,798	-
Total	\$ 10,881	\$ 3,851

The amount of \$7,798 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 September 30, 2017. Other amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$ 2,911
2018	2,911
2019	2,553
2020	341
2021	(5)
Thereafter	(94)
Total	\$ 8,617

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Supplemental Death Benefits Fund – 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 postemployment benefit," or OPEB.

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

The City's contributions to the TMRS SDBF for the calendar years ended 2017, 2016 and 2015 were \$830, \$883 and \$1,241, respectively, which equaled the required contributions each year.

Accounting Standards

The GASB has issued the following Statement(s) which were implemented during the current fiscal year as shown below:

Statement No. 74, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans."* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2016. All applicable provisions have been included in the City's financial statements as of September 30, 2017.

Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2016. All applicable provisions have been included in the City's financial statements as of September 30, 2017.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Accounting Standards – continued

GASB Statement No. 80, *“Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14.”* The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2016. All applicable provisions have been included in City’s financial statements as of September 30, 2017.

The GASB has issued the following Statements which will become effective in future years as shown below:

GASB Statement No. 82, *“Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73.”* This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will become effective September 30, 2018. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 83, *“Certain Asset Retirement Obligations”* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement will become effective September 30, 2019. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 84, *“Fiduciary Activities.”* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement will become effective September 30, 2020. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 85, *“Omnibus 2017.”* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement will become effective September 30, 2018. Management has not yet determined the impact of this Statement on the financial statements.

**CITY OF MOUNT ENTERPRISE TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Accounting Standards – continued

GASB Statement No. 86, “*Certain Debt Extinguishment Issues.*” The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement will become effective September 30, 2018. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 87, “*Leases.*” The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will become effective September 30, 2021. Management has not yet determined the impact of this Statement on the financial statements.

Interfund Transfers

Transfers are indicative of funding for capital projects, debt service, and subsidies of various City operations. The composition of inter-fund transfers from/to other funds as of September 30, 2017, is as follows:

<u>Funds</u>	<u>Transfers in</u>	<u>Transfers out</u>
General	\$ 11,086	\$ -
Debt service	-	18,103
Wastewater	<u>17,017</u>	<u>10,000</u>
Total	<u>\$ 28,103</u>	<u>\$ 28,103</u>

OMB Circular A-133 – State of Texas Single Audit Circular

The City did not expend \$750,000 or more in federal or state awards during 2017. As a result, a Single Audit in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular was not required for the year ended September 30, 2017.

Subsequent Events

As of August 14, 2018, the City Council discharged the City Marshal and has not finalized plans to fill the vacant position.

Management has evaluated subsequent events through September 25, 2018, which is the date the financial statements were made available to management.

Required Supplementary Information

TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST 10 YEARS (WILL ULTIMATELY BE DISPLAYED)
(UNAUDITED)

	2017	2016	2015
Total pension liability			
Service cost	\$ 8,049	\$ 7,053	\$ 6,317
Interest (on the total pension liability)	12,015	10,925	9,727
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(1,534)	(2,197)	699
Change of assumptions	-	5,648	-
Benefit payments, including refunds of employee contributions	-	-	-
Net change in total pension liability	18,530	21,429	16,743
Total pension liability - beginning	173,971	152,542	135,799
Total pension liability - ending (a)	\$ 192,501	\$ 173,971	\$ 152,542
Plan fiduciary net position			
Contributions - employer	\$ 2,181	\$ 2,587	\$ 4,125
Contributions - employee	5,652	5,194	5,902
Net investment income	11,173	232	7,976
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	(126)	(142)	(83)
Other	(7)	(7)	(7)
Net change in plan fiduciary net position	18,873	7,864	17,913
Plan fiduciary net position - beginning	165,146	157,282	139,369
Plan fiduciary net position - ending (b)	\$ 184,019	\$ 165,146	\$ 157,282
Net pension liability - ending [(a) - (b)]	\$ 8,482	\$ 8,825	\$ (4,740)
Plan fiduciary net position as a percentage of total pension liability	95.59%	94.93%	103.11%
Covered employee payroll	\$ 113,043	\$ 103,877	\$ 118,038
Net pension liability as a percentage of covered employee payroll	7.50%	8.50%	(4.02%)

**TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
LAST 10 YEARS (WILL ULTIMATELY BE DISPLAYED)
(UNAUDITED)**

	2017	2016	2015
Actuarially determined contribution	\$ 8,482	\$ 8,825	\$ 4,125
Contributions in relation to the actuarially determined contribution	<u>7,833</u>	<u>7,781</u>	<u>4,125</u>
Contribution deficiency (excess)	<u>649</u>	<u>1,044</u>	<u>-</u>
Covered employee payroll	113,043	103,877	118,038
Contributions as a percentage of covered employee payroll	6.93%	7.49%	3.49%

NOTES TO THE SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	7 years
Asset valuation method	10 year smoothed market, 15% soft corridor
Inflation	2.5%
Salary increases	3.50% to 10.5% 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.

Compliance and Internal Control



David K. Godwin

Certified Public Accountant

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

To the Honorable Mayor and Members of City Council
City of Mount Enterprise, Texas

I have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of the City of Mount Enterprise, Texas (City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City's basic financial statements and have issued my report thereon dated September 25, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be significant deficiencies, 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Mount Enterprise, Texas's Response to Findings

The City's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.



David K. Godwin
Certified Public Accountant

Tyler, Texas
September 25, 2018

**CITY OF MOUNT ENTERPRISE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

2017-001 Significant Deficiency

Condition:

Undocumented processes and procedures impede the effectiveness of long term operations.

Criteria:

Succession planning ensures longevity of the City's current operations and financial infrastructure.

Cause of Condition:

The City has not fully designed an effective strategy for succession of key responsibilities within the City.

Potential Effect of Condition:

In the event of loss of key personnel within the City, the City would no longer have the capacity to perform ALL daily public service functions.

Recommendation 2017-001.01

In order to maintain integrity of the City's financial infrastructure, a succession plan should be developed to ensure common daily processes and procedures for routine public services can be performed by the City in the event key personal become unavailable to perform regular duties.

General effective succession planning activities often include cross training key personnel and/or identifying key responsibilities and establishing formal procedures.

Management Response

Agree

Disagree

Corrective Action Plan

Individual Responsible	Harvey Graves, Mayor	Estimated Implementation Date	March 2019 (6 months)
<p>To ensure public services functions are performed daily, the City will work to cross train appropriate personnel. In addition, the City will work with key personnel to develop formal procedures that outline their daily routines.</p>			