

CITY OF SHALLOWATER, TEXAS

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2018

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

CITY OF SHALLOWATER, TEXAS

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2018

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

MAYOR AND CITY COUNCIL

SEPTEMBER 30, 2018

Robert Olmsted Jr.	Mayor
Norman Moore	Mayor Pro Tem Alderman Place 1
Silas Jones	Alderman Place 5
Chris Cody	Alderman Place 4
David Bruegel	Alderman Place 3
Jason White	Alderman Place 2

CITY OF SHALLOWATER, TEXAS
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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CITY OF SHALLOWATER, TEXAS
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

Honorable Robert Olmsted Jr., Mayor
and Members of the City Council
City of Shallowater, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the City of Shallowater, Texas, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flow thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 12 to the financial statements, in 2018 the City adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of changes in the plan's net pension asset and related ratios, schedule of contributions for the retirement plan, schedule of changes in the total OPEB liability and related ratios and budgetary comparison information on pages 33 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report December 21, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering of the City's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

December 21, 2018

CITY OF SHALLOWATER, TEXAS

Exhibit 1

STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	Primary Government		Total
	Governmental Activities	Business- Type Activities	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,729,908	\$ 1,501,578	\$ 3,231,486
Restricted Cash and Cash Equivalents		1,267,334	1,267,334
Receivables (Net)	100,481	181,809	282,290
Internal Balances	571,455	(571,455)	
Total Current Assets	\$ 2,401,844	\$ 2,379,266	\$ 4,781,110
Noncurrent Assets:			
Capital Assets:			
Land, Buildings, and Equipment, Net of Depreciation	\$ 1,740,555	\$ 2,208,832	\$ 3,949,387
Construction Work In Progress		1,702,498	1,702,498
Water Rights, Net of Amortization		785,499	785,499
Net Pension Asset	121,806	48,382	170,188
Total Noncurrent Assets	\$ 1,862,361	\$ 4,745,211	\$ 6,607,572
Total Assets	\$ 4,264,205	\$ 7,124,477	\$ 11,388,682
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Plan - Employer Contribution Deferrals	\$ 10,806	\$ 4,293	\$ 15,099
Pension Plan - Changes in Assumptions	7,918	3,145	11,063
OPEB Plan - Employer Contribution Deferrals	31	13	44
OPEB Plan - Changes in Assumptions	1,353	537	1,890
Total Deferred Outflows of Resources	\$ 20,108	\$ 7,988	\$ 28,096
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 98,003	\$ 157,720	\$ 255,723
Accrued Payroll	12,635	3,929	16,564
Meter Deposits		61,435	61,435
Current Portion of Long-Term Obligations	41,860	262,733	304,593
Total Current Liabilities	\$ 152,498	\$ 485,817	\$ 638,315
Noncurrent Liabilities:			
Noncurrent Portion of Long-Term Obligations	\$ 755,575	\$ 3,836,019	\$ 4,591,594
Total OPEB Liability	20,517	8,150	28,667
Accrued Compensated Absences	58,513	15,816	74,329
Total Noncurrent Liabilities	\$ 834,605	\$ 3,859,985	\$ 4,694,590
Total Liabilities	\$ 987,103	\$ 4,345,802	\$ 5,332,905
DEFERRED INFLOWS OF RESOURCES:			
Pension Plan - Difference in Expected and Actual Experience	\$ 55,716	\$ 22,130	\$ 77,846
Pension Plan - Difference in Projected and Actual Earnings	26,139	10,383	36,522
Total Deferred Inflows of Resources	\$ 81,855	\$ 32,513	\$ 114,368
NET POSITION			
Net Investment in Capital Assets	\$ 943,120	\$ 987,599	\$ 1,930,719
Restricted For:			
City Park	21,538		21,538
Enabling Legislation	14,093		14,093
Unrestricted	2,236,604	1,766,551	4,003,155
Total Net Position	\$ 3,215,355	\$ 2,754,150	\$ 5,969,505

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Program Revenues			Net (Expense) Revenue and Changes In Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
Net (Expense) Revenue						
<u>Primary Government:</u>						
Judicial	\$ 20,657	\$ 8,424	\$	\$	\$ (12,233)	\$ (12,233)
Legislative	3,921				(3,921)	(3,921)
Administrative	271,509	36,080			(235,429)	(235,429)
Sanitation	177,236	292,123			114,887	114,887
Streets	125,911		1,113		(124,798)	(124,798)
Fire	104,901		93,376		(11,525)	(11,525)
Police	334,680			37,500	(297,180)	(297,180)
Health	2,195				(2,195)	(2,195)
Ambulance	309,514	179,923			(129,591)	(129,591)
Civil Defense	18,123				(18,123)	(18,123)
Parks	29,426			208,250	178,824	178,824
Depreciation	207,305				(207,305)	(207,305)
Total Governmental Activities	\$ 1,605,378	\$ 516,550	\$ 94,489	\$ 245,750	\$ (748,589)	\$ (748,589)
<u>Business-Type Activities:</u>						
Water	\$ 998,665	\$ 1,288,116	\$	\$	\$ 289,451	\$ 289,451
Sewer	177,722	254,805			77,083	77,083
Interest on Debt	149,362				(149,362)	(149,362)
Total Business-Type Activities	\$ 1,325,749	\$ 1,542,921	\$ 0	\$ 0	\$ 217,172	\$ 217,172
Total Primary Government	\$ 2,931,127	\$ 2,059,471	\$ 94,489	\$ 245,750	\$ (748,589)	\$ (531,417)
General Revenues:						
Taxes:						
Property Taxes, Levied for General Purposes					\$ 1,083,374	\$ 1,083,374
Franchise Taxes					151,757	151,757
Sales Taxes					143,510	143,510
Unrestricted Investment Earnings					14,014	39,253
Miscellaneous					32,892	47,313
Transfers					(100,000)	
Total General Revenues and Special Items					\$ 1,336,772	\$ 1,465,207
Change in Net Position					\$ 588,183	\$ 933,790
Net Position—Beginning					2,644,319	5,059,673
Prior Period Adjustment					(17,147)	(23,958)
Net Position—Ending					\$ 3,215,355	\$ 5,969,505

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 3

BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2018

	<u>Major General Fund</u>
ASSETS:	
Cash and Cash Equivalents	\$ 1,729,908
Accounts Receivable, net	86,994
Delinquent Taxes Receivable, net	13,487
Due from Other Funds	571,455
Total Assets	<u>\$ 2,401,844</u>
LIABILITIES:	
Accounts Payable	\$ 98,003
Accrued Payroll	12,635
Accrued Compensated Absences	58,513
Total Liabilities	<u>\$ 169,151</u>
DEFERRED INFLOWS OF RESOURCES:	
Unavailable Revenue - Property Taxes	<u>\$ 13,487</u>
FUND BALANCES:	
Restricted For:	
City Park	\$ 21,538
Enabling Legislation	14,093
Unassigned	2,183,575
Total Fund Balances	<u>\$ 2,219,206</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,401,844</u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 4

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

Total Fund Balances - Governmental Fund Balance Sheet	\$	2,219,206
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:		
Net capital assets used in governmental activities are not reported in the funds.		1,740,555
Payables for debt principal which are not due in the current period are not reported in the funds.		(797,435)
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		13,487
Total OPEB Liability and Related Deferred Inflows and Outflows are not reported in the funds.		(19,133)
Net Pension Asset and Related Deferred Inflows and Outflows are not reported in the funds.		<u>58,675</u>
Net Position of Governmental Activities - Statement of Net Position	\$	<u><u>3,215,355</u></u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 5

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Major</u> <u>General</u> <u>Fund</u>
Revenues:	
Taxes:	
Property Taxes	\$ 1,083,512
City Sales Taxes	143,510
Franchise Taxes	151,757
Intergovernmental Revenue	131,989
Fines	8,424
Interest Income	25,239
Permits	36,080
Ambulance Calls	179,923
Sanitation Revenue	292,123
Miscellaneous Revenue	32,892
Contributions	208,250
Total Revenues	<u>\$ 2,293,699</u>
Expenditures:	
Judicial	\$ 20,841
Legislative	3,921
Administrative	273,360
Sanitation Department	177,236
Streets	112,105
Fire Department	135,842
Police Department	375,815
Health Department	2,195
Ambulance	310,213
Civil Defense	18,261
Parks	233,876
Debt Service:	
Principal	40,524
Interest	27,612
Total Expenditures	<u>\$ 1,731,801</u>
Excess of Revenues Over Expenditures	<u>\$ 561,898</u>
Other Financing Sources (Uses):	
Transfers Out	<u>\$ (100,000)</u>
Total Other Financing Sources (Uses):	<u>\$ (100,000)</u>
Net Change in Fund Balance	\$ 461,898
Fund Balances - Beginning	<u>1,757,308</u>
Fund Balances - Ending	<u><u>\$ 2,219,206</u></u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Net Change in Fund Balances - Total Governmental Fund	\$ 461,898
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Governmental funds report capital outlay as expenditures. However, the Statement of Activities reports these as assets that are depreciated over their useful lives.	285,640
Depreciation is recorded in the Statement of Activities as an expense but not in governmental funds.	(207,305)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(138)
Repayment of debt principal is an expenditure in the funds but is not an expense in the SOA.	40,524
OPEB Expense is not accrued in the funds related to the Total OPEB Liability and Deferred Outflows.	(1,986)
Pension Expense is not accrued in the funds related to the Net Pension Asset and Deferred Outflows.	<u>9,550</u>
Change in Net Position of Governmental Activities - Statement of Activities	<u><u>\$ 588,183</u></u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 7

STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2018

	<u>Major Water and Sewer</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 1,501,578
Restricted Cash and Cash Equivalents	1,267,334
Accounts Receivable, net	181,809
Total Current Assets	<u>\$ 2,950,721</u>
Noncurrent Assets:	
Capital Assets:	
Land, Buildings, and Equipment, Net of Depreciation	\$ 2,208,832
Construction Work In Progress	1,702,498
Water Rights, Net of Amortization	785,499
Net Pension Asset	48,382
Total Noncurrent Assets	<u>\$ 4,745,211</u>
Total Assets	<u>\$ 7,695,932</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Pension Plan - Employer Contribution Deferrals	\$ 4,293
Pension Plan - Changes in Assumptions	3,145
OPEB Plan - Employer Contribution Deferrals	13
OPEB Plan - Changes in Assumptions	537
Total Deferred Outflows of Resources	<u>\$ 7,988</u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 157,720
Due to Other Funds	571,455
Meter Deposits	61,435
Accrued Payroll	3,929
Current Portion of Long-Term Debt	262,733
Total Current Liabilities	<u>\$ 1,057,272</u>
Noncurrent Liabilities:	
Long-Term Debt Due After One Year	\$ 3,836,019
Total OPEB Liability	8,150
Accrued Compensated Absences	15,816
Total Noncurrent Liabilities	<u>\$ 3,859,985</u>
Total Liabilities	<u>\$ 4,917,257</u>
DEFERRED INFLOWS OF RESOURCES:	
Pension Plan - Difference in Expected and Actual Experience	\$ 22,130
Pension Plan - Difference in Projected and Actual Earnings	10,383
Total Deferred Inflows of Resources	<u>\$ 32,513</u>
NET POSITION:	
Net Investment in Capital Assets	\$ 987,599
Unrestricted	<u>1,766,551</u>
Total Net Position	<u>\$ 2,754,150</u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Major Water and Sewer</u>
OPERATING REVENUES:	
Water Revenue	\$ 1,225,865
Sewer Revenue	254,805
Tapping and Connection Fees	20,875
Penalties	41,376
Total Operating Revenue	<u>\$ 1,542,921</u>
OPERATING EXPENSES:	
Water Department	\$ 998,665
Sewer Department	177,722
Total Operating Expenses	<u>\$ 1,176,387</u>
Operating Income	<u>\$ 366,534</u>
NONOPERATING REVENUES (EXPENSES):	
Interest Income	\$ 14,014
Miscellaneous Revenue	14,421
Gain on Sale of Capital Assets	
Interest Expense	(149,362)
Total Nonoperating Expense	<u>\$ (120,927)</u>
Income Before Transfers	\$ 245,607
Transfers In	<u>100,000</u>
Change in Net Position	\$ 345,607
TOTAL NET POSITION - BEGINNING	2,415,354
PRIOR PERIOD ADJUSTMENT	<u>(6,811)</u>
TOTAL NET POSITION - ENDING	<u>\$ 2,754,150</u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 9

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Major Water and Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Customers	\$ 1,543,878
Cash Payments to Employees for Services	(216,558)
Cash Payments to Other Suppliers for Goods and Services	(905,202)
Net Change in Cash From Operating Activities	<u>\$ 422,118</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers From Other Funds	\$ 100,000
Due to Other Funds	537,095
Receipts From Other Nonoperating Activities	14,421
Net Change in Cash From Non-Capital Financing Activities	<u>\$ 651,516</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal and Interest Paid on Long-Term Debt	\$ (407,566)
Acquisition or Construction of Capital Assets	(480,561)
Net Change in Cash From Capital and Related Financing Activities	<u>\$ (888,127)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earned on Investments	\$ 14,014
Net Change in Cash From Investing Activities	<u>\$ 14,014</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 199,521
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,569,391</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,768,912</u></u>
Reconciliation of Operating Income to Net Cash From Operating Activities:	
Operating Income	<u>\$ 366,534</u>
Adjustments to Reconcile Income From Operations to Net Cash From Operating Activities:	
Depreciation and Amortization	\$ 125,520
Change in Assets and Liabilities:	
Receivables	(4,098)
Accounts Payable	(69,216)
Meter Deposits	5,055
Accrued Compensated Absences	1,552
Accrued Payroll	1,127
Net Pension Asset/Liability	(49,875)
Total OPEB Liability	1,339
Deferred Inflows of Resources	43,500
Deferred Outflows of Resources	680
Total Adjustments	<u>\$ 55,584</u>
Net Cash From Operating Activities	<u><u>\$ 422,118</u></u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Shallowater, Texas, (the City) operates under a Council-Manager form of government. The City's major operations include police and fire protection, sanitation and recreation, public works, and general administrative services. In addition, the City owns and operates a water and sewer system.

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. REPORTING ENTITY

These financial statements present the City (the primary government). GASB Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34 identifies criteria for determining if other entities are potential component units that should be reported within the City's basic financial statements. The application of these criteria provides for identification of any entities for which the City is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading. The City does not have component units.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's general fund). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, sanitation and recreation, public works, and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities are presented by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, public works, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

Program revenues must be directly associated with the function (fire, public works, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or franchise taxes, intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The City applies GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed - Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution.

Assigned - Amounts that are constrained for a specific purpose by an individual that has been delegated authority by the City Council to assign amounts.

Unassigned - All amounts not included in other spendable classifications.

For the fiscal year ended September 30, 2018, the City's fund balance was unassigned. The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserve the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

The following fund types are used by the City:

1. Major Governmental Fund:

The focus of governmental fund measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Major Proprietary Fund:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the City:

Water and Sewer fund accounts for the revenues and expenses associated with providing water and sewer service to the citizens of the City.

D. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

E. FINANCIAL STATEMENT AMOUNTS

1. Cash and Cash Equivalents:

Cash and Cash Equivalents include cash in bank and certificates of deposit for cash flow purposes.

Certificates of Deposit are stated at fair value (quoted market price or the best available estimate).

Certain amounts of the City's assets are restricted for the following purposes:

Restricted Assets:

Water and Sewer Fund:

Certificate of Deposit - Collateral for Note Payable	\$	67,286
Cash - Capital Projects		<u>1,200,048</u>
Business-Type Restricted Cash and Equivalents	\$	<u><u>1,267,334</u></u>

2. Receivable Balances:

Receivables for the City's individual funds, including the applicable allowances for uncollectible accounts, are as follows for the year ended September 30, 2018:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Receivables:			
Property Taxes	\$ 49,928	\$	\$ 49,928
Franchise Taxes	37,838		37,838
Ambulance	91,202		91,202
Grant Receivable	30,731		30,731
Other	1,808	4,873	6,681
Customer Accounts		<u>320,191</u>	<u>320,191</u>
Gross Receivables	\$ 211,507	\$ 325,064	\$ 536,571
Less: Allowance for Uncollectibles	<u>(111,026)</u>	<u>(143,255)</u>	<u>(254,281)</u>
Net Total Receivables	<u><u>\$ 100,481</u></u>	<u><u>\$ 181,809</u></u>	<u><u>\$ 282,290</u></u>

3. Property Taxes:

The value of all real and business property located in the City is assessed annually on January 1 in conformity with Subtitle E of the Texas Property Code. Property taxes are levied on October 1 on those assessed values and the taxes are due on receipt of the tax bill and are delinquent if not paid by February 1. On the following January 1, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets:

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	25 - 40 years
Water and Sewer Systems	15 - 40 years
Machinery and Equipment	3 - 20 years

5. Revenues:

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB No. 33. In applying GASB No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

6. Expenditures:

Expenditures are recognized when the related fund liability is incurred.

7. Compensated Absences:

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee.

8. Interfund Transactions:

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

Transfers and receivables to and from other funds consist of the following at September 30, 2018:

Interfund Receivables and Payables:

<u>Payable</u>	<u>Receivable</u>	<u>Amount Payable/Receivable</u>
Water and Sewer	General Fund	\$ <u>571,455</u>

The Interfund Balance is used to account for sanitation revenue received in the Water and Sewer Fund bank account that is due to the General Fund and other miscellaneous Interfund Balances. The entity transfers the balance between cash accounts to relieve the liability or receivable.

During the year ended September 30, 2018, the City transferred \$100,000 from the General Fund to the Water and Sewer Fund to cover debt service payments.

2. DEPOSITS AND INVESTMENTS

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

1. Cash Deposits:

At September 30, 2018, the City's cash deposits were \$4,498,820 with a bank balance of \$4,571,003. The City's cash deposits at September 30, 2018, and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

2. Analysis of Specific Deposit and Investment Risks

GASB requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At year end, the City's investments were not exposed to credit risk.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

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

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City had no investments representing more than five percent of total investments.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

e. Foreign Currency Risk

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

3. CAPITAL ASSETS

Governmental Activities:

Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$ 167,623	\$	\$	\$ 167,623
City Park	431,825	204,312		636,137
Infrastructure	1,037,202			1,037,202
Machinery and Equipment	370,648	43,803		414,451
Automotive	1,000,535	37,525		1,038,060
	<u>\$ 3,007,833</u>	<u>\$ 285,640</u>	<u>\$ 0</u>	<u>\$ 3,293,473</u>

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

Accumulated Depreciation

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$ 152,185	\$ 1,949	\$	\$ 154,134
City Park	81,567	31,214		112,781
Infrastructure	52,123	51,860		103,983
Machinery and Equipment	291,691	27,234		318,925
Automotive	768,047	95,048		863,095
	<u>\$ 1,345,613</u>	<u>\$ 207,305</u>	<u>\$ 0</u>	<u>\$ 1,552,918</u>
Net Capital Assets	<u>\$ 1,662,220</u>	<u>\$ 78,335</u>	<u>\$ 0</u>	<u>\$ 1,740,555</u>

Business-Type Activities:

Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 253,127	\$	\$	\$ 253,127
Buildings	103,531			103,531
Water System	1,625,794			1,625,794
Sewer System	1,811,579	321,750		2,133,329
Automotive	92,912	26,800	14,240	105,472
Construction WIP	1,570,487	132,011		1,702,498
Water Rights	818,893			818,893
	<u>\$ 6,276,323</u>	<u>\$ 480,561</u>	<u>\$ 14,240</u>	<u>\$ 6,742,644</u>

Accumulated Depreciation and Amortization

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$ 61,304	\$ 2,367	\$	\$ 63,671
Water System	911,394	41,770		953,164
Sewer System	913,857	55,875		969,732
Automotive	24,360	15,734	14,240	25,854
Water Rights	23,620	9,774		33,394
	<u>\$ 1,934,535</u>	<u>\$ 125,520</u>	<u>\$ 14,240</u>	<u>\$ 2,045,815</u>
Net Capital Assets	<u>\$ 4,341,788</u>	<u>\$ 355,041</u>	<u>\$ 0</u>	<u>\$ 4,696,829</u>

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

4. WATER RIGHTS

On January 25, 2013, the City purchased water rights at a cost of \$330,211. The depletion will begin when the City begins pumping water. The City had a study done to determine the ground water capacity. This study will be used to determine the amount to amortize once the City begins to pump water. As of September 30, 2018, the City had not pumped any water from this location.

On April 28, 2015, the City purchased water rights at a cost of \$488,682. The City is currently pumping water from the wells associated with the water rights and based on a study done, the City should be able to use these wells through the year 2065. The City is amortizing the cost of the water rights over 50 years and amortized \$9,774 during the year ended September 30, 2018.

5. LONG-TERM OBLIGATIONS

Governmental Long-Term Obligations:

Note Payable

On January 29, 2016, the City borrowed \$1,000,000 from Peoples Bank at an interest rate of 3.25% to be paid in annual installments through February 15, 2035. The proceeds of the loan were used for City streets. The unpaid balance at September 30, 2018 is \$797,435.

Debt Service Requirements on Governmental Long-Term Obligations:

	Principal	Interest	Total
9/30/2019	\$ 41,860	\$ 26,277	\$ 68,137
9/30/2020	43,239	24,897	68,136
9/30/2021	44,600	23,537	68,137
9/30/2022	46,133	22,003	68,136
9/30/2023	47,654	20,483	68,137
9/30/2024-9/30/2028	262,830	77,851	340,681
9/30/2029-9/30/2033	309,103	31,584	340,687
9/30/2034	2,016	66	2,082
	\$ 797,435	\$ 226,698	\$ 1,024,133

Business-Type Long-Term Obligations:

General Obligation Bonds

In 2012, the City issued General Obligation Bonds totaling \$4,100,000. Proceeds from this issue are to be used for Water and Sewer improvements. This debt carries an interest rate of 1.7% - 4.32% and matures in 2031. The bonds constitute direct obligations of the City, payable from a combination of (1) the levy and collection of a direct and continuing ad valorem tax on all taxable property within the City and (2) a pledge of surplus net revenues of the City's Waterworks and Sewer System.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

The following is a summary of certificate activities for the year ended September 30, 2018, and the principal and interest requirements for the next 12 months.

	Balance 10/1/2017	Issued	Retired	Balance 9/30/2018	Amounts Due Next 12 Months	
					Principal	Interest
General Obligation Bonds - 2013	\$ <u>3,355,000</u>	\$ <u>0</u>	\$ <u>190,000</u>	\$ <u>3,165,000</u>	\$ <u>195,000</u>	\$ <u>115,426</u>

Note Payable

On August 20, 2013, the City borrowed \$100,000 from First State Bank at an interest rate of 2.00%. The proceeds of this loan are being used to replace a section of water line. The City refinanced the loan to extend the maturity date to November 1, 2023. The interest rate was changed to 4%. The unpaid balance at September 30, 2018 is \$54,864.

On August 18, 2013, the City borrowed \$530,000 from Happy State Bank at an interest rate of 3.25% to be paid in annual installments through March 15, 2034. The proceeds of the loan are to be used for water and sewer improvements. The unpaid balance at September 30, 2018 is \$423,761.

On April 28, 2015, the City borrowed \$547,558 from Peoples Bank at an interest rate of 2.95% to be paid in annual installments through April 1, 2030. The proceeds of the loan were used to purchase water rights. The unpaid balance at September 30, 2018 is \$455,127.

Debt Service Requirements on Business-Type Long-Term Obligations:

	Principal	Interest	Total
9/30/2019	\$ 262,733	\$ 144,781	\$ 407,514
9/30/2020	269,845	137,330	407,175
9/30/2021	281,287	128,782	410,069
9/30/2022	287,743	119,609	407,352
9/30/2023	294,246	109,846	404,092
9/30/2024-9/30/2028	1,582,013	384,651	1,966,664
9/30/2029-9/30/2033	1,094,624	78,773	1,173,397
9/30/2034	26,261	1,112	27,373
	\$ <u>4,098,752</u>	\$ <u>1,104,884</u>	\$ <u>5,203,636</u>

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

6. PENSION PLAN

Plan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with 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 75.00% of the member's deposits and interest.

Currently the City has adopted the following provisions related to the pension plan:

	<u>December 31, 2017</u>
Employee Deposit Rate	5.00%
Matching Ratio (City to Employee)	1.5 to 1
Years Required for Vesting	5
Service Requirement Eligibility (Expressed as Age / Years of Service)	60/5,0/25
Updated Service Credit	100%
Annuity Increase (to Retirees)	0% of CPI

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

Employees Covered by Benefit Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	5
Inactive Employees Entitled to But Not Yet Receiving Benefits	8
Active Employees	<u>15</u>
Total Plan Employees	<u>28</u>

Contributions

The contribution rates for employees in TMRS are either 5.00%, 6.00%, or 7.00% of employee gross earnings, and the city matching percentages are either 100.00%, 150.00%, or 200.00%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5.00% of their annual gross earnings during the fiscal year. The required contribution rates for the City were 3.45% and 3.43% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, was \$20,343.

Net Pension Liability

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

Actuarial Assumptions

Inflation	2.5% per year
Overall Payroll Growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar 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.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

Actuarial assumptions used in the December 31, 2017, 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.

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 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%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%

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 SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

Changes in Net Pension Asset/Liability

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension (Asset) / Liability</u>
Balance 12/31/2016	\$ 1,252,207	\$ 1,246,674	\$ 5,533
Service Cost	48,886		48,886
Interest (on the Total Pension Liability)	85,059		85,059
Difference Between Expected and Actual Expenses	(89,971)		(89,971)
Contributions - Employee		28,389	(28,389)
Contributions - Employer		19,578	(19,578)
Net Investment Income		172,668	(172,668)
Benefit Payments	(33,040)	(33,040)	
Administrative Expense		(895)	895
Other		(45)	45
Balance 12/31/2017	<u>\$ 1,263,141</u>	<u>\$ 1,433,329</u>	<u>\$ (170,188)</u>

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

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

<u>1% Decrease</u>	<u>Current Rate Assumption</u>	<u>1% Increase</u>
\$ <u>3,072</u>	\$ <u>(170,188)</u>	\$ <u>(314,381)</u>

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.

Pension Expense, Deferred Outflows, and Deferred Inflows related to Pensions

For the year ended September 30, 2018, the City recognized pension expense of \$5,638 and calculated as shown below:

Total Service Cost	\$ 48,886
Interest on the Total Pension Liability	85,059
Employee Contributions (Reduction of Expense)	(28,389)
Projected Earnings on Plan Investments (Reduction of Expense)	(84,150)
Administrative Expense	895
Other Changes in Fiduciary Net Position	45
Recognition of Outflow (Inflow) of Resources-Liabilities	(17,534)
Recognition of Outflow (Inflow) of Resources-Assets	<u>826</u>
Total Pension Expense	<u>\$ 5,638</u>

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

<u>Deferred Outflows/(Inflows) of Resources - Pension Plan</u>	<u>Plan Year</u>	<u>Amount</u>	<u>Remaining Amortization Period</u>
Employer Contribution Deferrals	2018	\$ 15,099	1.000
Differences Between Projected and Actual Investment Earnings	2014	2,755	1.000
Differences Between Projected and Actual Investment Earnings	2015	31,556	2.000
Differences Between Projected and Actual Investment Earnings	2016	(19)	3.000
Differences Between Projected and Actual Investment Earnings	2017	(70,814)	4.000
Differences Between Expected and Actual Economic Experience	2014	369	0.420
Differences Between Expected and Actual Economic Experience	2015	(7,926)	1.650
Differences Between Expected and Actual Economic Experience	2016	(446)	2.390
Differences Between Expected and Actual Economic Experience	2017	(69,843)	3.470
Difference in Assumptions	2015	11,063	1.650
Total Deferred Outflows/(Inflows) of Resources		<u>\$ (88,206)</u>	

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Plan Year</u>	<u>Amortization of Deferred Outflows/Inflows</u>
2018	\$ (2,122)
2019	(21,010)
2020	(37,910)
2021	(27,164)
2022	
	<u>\$ (88,206)</u>

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description:

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. 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). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

The member 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 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.

Benefits Provided:

The plan provides a \$7,500 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the SDBF. The OPEB benefit is a fixed \$7,500 lump-sum benefit and no future increases are assumed in the benefit amount.

The SDBF fund does not meet the requirements of a trust under Paragraph 4b of GASB No. 75, as the assets of the SDBF can be used to pay active SDBF benefits which are not part of the OPEB plan. The contributions for retiree SDBF coverage are assigned to the OPEB plan under GASB 75 and are used to determine the benefit payments shown in the changes in the total OPEB liability.

Benefit terms are established under the TMRS Act. Participation in the retiree SDBF is optional and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year. The City's contribution rate for the retiree SDBF program is calculated annually on an actuarial basis, and is equal to the cost of providing a one-year death benefit equal to \$7,500.

Employees Covered by Benefit Terms:

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	3
Inactive Employees Entitled to but not Yet Receiving Benefits	2
Active Employees	15
Total Plan Employees	<u>20</u>

Total OPEB Liability:

The City's total OPEB liability of \$28,667 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

Actuarial Assumptions:

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	
Recognition of Economic/Demographic Gains and Losses and Assuptions	Straight-Line Amortization over Expected Working Life
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Discount Rate	3.31%
Retirees' Share of Benefit-Related Costs	\$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – Service Retirees	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.
Mortality rates – Disabled Retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.31% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2017. At transition, GASB 75 also requires that the Total OPEB Liability (TOL) as of the prior fiscal year end be estimated based on the 20 Year Bond GO Index.

Annuity Purchase Rates:

Annuity purchase rates are used to determine the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027 the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

Experience Studies:

Actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. TMRS uses the experience studies as a basis for determining assumptions, except where required to be treated different by GASB 75.

Changes in the Total OPEB Liability:

Balance as of December 31, 2016	\$ 23,958
Changes for the year:	
Service Cost	1,703
Interest on Total OPEB Liability	936
Effect of Assumptions Changes or Inputs	2,184
Benefit Payments	<u>(114)</u>
Balance as of December 31, 2017	<u>\$ 28,667</u>

Changes of assumptions or other inputs reflect a change in the discount rate from 2016 to 2017.

There were no changes of benefit terms that affected measurement during the measurement period.

Sensitivity Analysis:

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 3.31%, as well as what the Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or 1 percentage point higher (4.31%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Total OPEB Liability	\$ <u>34,218</u>	\$ <u>28,667</u>	\$ <u>24,273</u>

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

For the year ended September 30, 2018, the City recognized OPEB expense of \$2,933. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	\$ 1,890	\$
Contributions Made Subsequent to Measurement Date	44	
	<u>\$ 1,934</u>	<u>\$ 0</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB benefits will be recognized in OPEB expense as follows:

	OPEB Expense Amount
2018	\$ 338
2019	294
2020	294
2021	294
2022	294
Thereafter	420
	<u>\$ 1,934</u>

8. SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 21, 2018, the date the financial statements were available to be issued.

9. CONTINGENCIES, LITIGATION, AND COMMITMENTS

As of September 30, 2018, there were no claims or assessments nor any litigation pending against the City.

10. UNBILLED REVENUE

The City does not record unbilled revenue at the end of each month. It is estimated that the City had 15 days of unbilled revenue for the month of September 2018 which was billed to the customers in November 2018. For the year ended September 30, 2018, the City had estimated unbilled utility revenues of \$72,986.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

11. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the 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 has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

12. PRIOR PERIOD ADJUSTMENT

During the year the City adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the effect of adopting this standard reduced beginning net position by \$23,958 for the primary government.

13. OPERATING LEASES

The City is leasing a backhoe and tractor under operating leases. Total rental expense for the year ended September 30, 2018 was \$23,668.

The following schedule details future minimum lease payments as of September 30, 2018 for the above operating lease:

Year Ending September 30,	Amount
2019	\$ 19,906
2020	19,906
2021	19,906
2022	19,906
2023	7,307
	<u>86,931</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SHALLOWATER, TEXAS
DEFINED BENEFIT RETIREMENT PLAN

RSI - 1

SCHEDULE OF CHANGES IN THE PLAN'S NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

	12/31/2014	12/31/2015	12/31/2016	12/31/2017
	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability
Service Cost	\$ 35,302	\$ 45,546	\$ 49,088	\$ 48,886
Interest	69,317	75,480	79,231	85,059
Benefit Payments/Refunds of Employee Contributions	(28,003)	(23,178)	(49,076)	(33,040)
Differences Between Expected and Actual Experience	3,889	(22,335)	(820)	(89,971)
Changes of Assumptions		31,175		
Net Change	\$ 80,505	\$ 106,688	\$ 78,423	\$ 10,934
Beginning Balance	986,591	1,067,096	1,173,784	1,252,207
Ending Balance	\$ 1,067,096	\$ 1,173,784	\$ 1,252,207	\$ 1,263,141
	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position
Employer Contributions	\$ 15,568	\$ 16,851	\$ 16,043	\$ 19,578
Employee Contributions	25,780	27,637	28,244	28,389
Net Investment Income	61,607	1,698	79,221	172,668
Benefit Payments/Refunds of Employee Contributions	(28,003)	(23,178)	(49,076)	(33,040)
Administration Expenses	(643)	(1,035)	(895)	(895)
Other	(53)	(50)	(49)	(45)
Net Change	\$ 74,256	\$ 21,923	\$ 73,488	\$ 186,655
Beginning Balance	1,077,007	1,151,263	1,173,186	1,246,674
Ending Balance	\$ 1,151,263	\$ 1,173,186	\$ 1,246,674	\$ 1,433,329
Net Pension Asset (Liability)	\$ 84,167	\$ (598)	\$ (5,533)	\$ 170,188
Fiduciary Net Position as a Percentage of Total Pension Liability	107.89%	99.95%	99.56%	113.47%
Covered Employee Payroll	\$ 505,986	\$ 552,740	\$ 564,882	\$ 567,784
Net Pension Asset as a Percentage of Covered Employee Payroll	16.63%	-0.11%	-0.98%	29.97%

Note: Only four years of GASB 68 Data Available as of 12/31/2017. The remaining six years of data will be built on a go forward basis.

CITY OF SHALLOWATER, TEXAS
DEFINED BENEFIT RETIREMENT PLAN

RSI - 2

SCHEDULE OF CONTRIBUTIONS
SEPTEMBER 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018</u>
Actuarially Determined Contribution	\$ 18,130	\$ 16,562	\$ 18,903	\$ 20,343
Actual Contributions	<u>18,130</u>	<u>16,562</u>	<u>18,903</u>	<u>20,343</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Employee Payroll	\$ 559,573	\$ 531,275	\$ 576,272	\$ 592,862
Contributions as a Percentage of Covered Employee Payroll	3.24%	3.12%	3.28%	3.43%

Note: Only four years of GASB 68 Data Available as of 09/30/2018. The remaining six years of data will be built on a go forward basis.

CITY OF SHALLOWATER, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
SEPTEMBER 30, 2018

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

Other Information:

Changes in Assumptions: There were no assumptions changes during the year.

Benefits Changes: There were no benefit changes during the year.

CITY OF SHALLOWATER, TEXAS
SUPPLEMENTAL DEATH BENEFIT FUND

RSI-4

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

	<u>12/31/2017</u> <u>Total OPEB</u> <u>Liability</u>
Service Cost	\$ 1,703
Interest	936
Benefit Payments	(114)
Differences between Expected and Actual Experience	0
Changes in Assumptions	<u>2,184</u>
 Net Change	 \$ 4,709
 Beginning Balance	 23,958
 Ending Balance	 <u>\$ 28,667</u>
 Total OPEB Liability	 <u>\$ 28,667</u>
 Covered Employee Payroll	 \$ 567,784
 Total OPEB Liability as a Percentage of Covered Employee Payroll	 5.05%

Note: Only one year of GASB 75 Data Available as of 12/31/2017. The remaining nine years of data will be built on a go forward basis.

CITY OF SHALLOWATER, TEXAS

RSI - 5

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

REQUIRED SUPPLEMENTARY INFORMATION

	(Unaudited) Original Budget	Actual	Variance Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property Taxes	\$ 1,041,263	\$ 1,083,512	\$ 42,249
City Sales Taxes	135,000	143,510	8,510
Franchise Taxes	137,400	151,757	14,357
Intergovernmental Revenue	128,156	131,989	3,833
Fines	8,000	8,424	424
Interest Income	10,000	25,239	15,239
Permits	22,000	36,080	14,080
Ambulance Calls	175,000	179,923	4,923
Sanitation Revenue	292,000	292,123	123
Miscellaneous Revenues	23,030	32,892	9,862
Contributions	4,000	208,250	204,250
Total Revenues	<u>\$ 1,975,849</u>	<u>\$ 2,293,699</u>	<u>\$ 317,850</u>
EXPENDITURES			
Judicial	\$ 19,213	\$ 20,841	\$ (1,628)
Legislative	15,400	3,921	11,479
Administrative	290,756	273,360	17,396
Sanitation Department	190,700	177,236	13,464
Streets	365,000	112,105	252,895
Fire Department	155,291	135,842	19,449
Police Department	366,733	375,815	(9,082)
Health Department	2,550	2,195	355
Ambulance	350,962	310,213	40,749
Civil Defense	17,029	18,261	(1,232)
Parks	35,187	233,876	(198,689)
Debt Service:			
Principal	39,416	40,524	(1,108)
Interest	27,612	27,612	
Total Expenditures	<u>\$ 1,875,849</u>	<u>\$ 1,731,801</u>	<u>\$ 144,048</u>
EXCESS OF REVENUES OVER EXPENDITURES - BUDGETED	<u>\$ 100,000</u>	<u>\$ 561,898</u>	<u>\$ 461,898</u>
OTHER FINANCING SOURCES (USES):			
Transfers Out	<u>\$ (100,000)</u>	<u>\$ (100,000)</u>	<u>\$ 0</u>
Total Other Financing Sources (Uses):	<u>\$ (100,000)</u>	<u>\$ (100,000)</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCE	<u>\$ 0</u>	<u>\$ 461,898</u>	<u>\$ 461,898</u>
FUND BALANCE - BEGINNING OF YEAR		<u>1,757,308</u>	
FUND BALANCE - END OF YEAR		<u>\$ 2,219,206</u>	

The budget was not amended during the year.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SEPTEMBER 30, 2018**

BUDGETARY DATA

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least 10 days public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments that are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. The legal level of control is at the function level. All budget appropriations lapse at year end.

The budget is presented on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

Annual budgets were adopted for the general fund.

EXCESS EXPENDITURES OVER APPROPRIATIONS

The excess expenditures over appropriations are covered by available unassigned fund balance.

INTERNAL CONTROL AND COMPLIANCE SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

**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**

Independent Auditor's Report

Honorable Robert Olmsted Jr., Mayor
and Members of the City Council
City of Shallowater, Texas

We 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, and each major fund of City of Shallowater, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Shallowater, Texas's basic financial statements and have issued our report thereon dated December 21, 2018.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

December 21, 2018