

ANNUAL FINANCIAL REPORT

City of Aledo, Texas

Year ended September 30, 2017

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City of Aledo, Texas
Annual Financial Report
Year ended September 30, 2017

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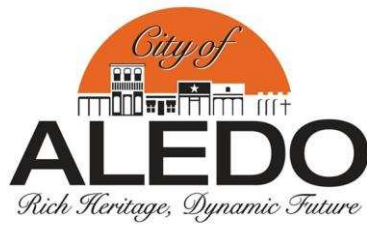
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Introductory Section

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March 27, 2018

Honorable Mayor, City Council Members and Citizens of Aledo:

Chapter 103, Texas Municipal Code, requires that a city shall have an annual audit. Accordingly, the annual audit for the fiscal year ending September 30, 2017, was completed by M. Vail & Associates, P.C., Independent Certified Public Accountants.

This audit report consists of management's representations concerning the finances of the City of Aledo. Consequently, management assumes full responsibility for the completeness and reliability of the information presented in this report. The goal of the independent audit was to provide reasonable assurance that the financial statements are free from material misstatements. Management provided a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal complements the MD&A.

The City of Aledo has experienced an increase in both housing and business activity. New homes are being built in residential Planned Developments - Parks of Aledo with 293 lots in Phases 1-3 and in Parks of Aledo, Point Vista, with 70 lots in Phase 1. And, another 196 lots were recently platted in Point Vista, Phase 2. Also, another residential Planned Development, Brookhollow, has 127 lots available for new home building with many of the lots having sold already. There were 113 new homes built in Aledo in 2017. On the commercial side, a new 42,000 sf medical office building plans to open in 2018 on Bailey Ranch Road since the widening of FM 1187 to 4 concrete lanes and the Downtown Aledo Trail highway projects were completed. Other commercial development is also now beginning in the Bailey Ranch area and along the FM 1187 highway corridor.

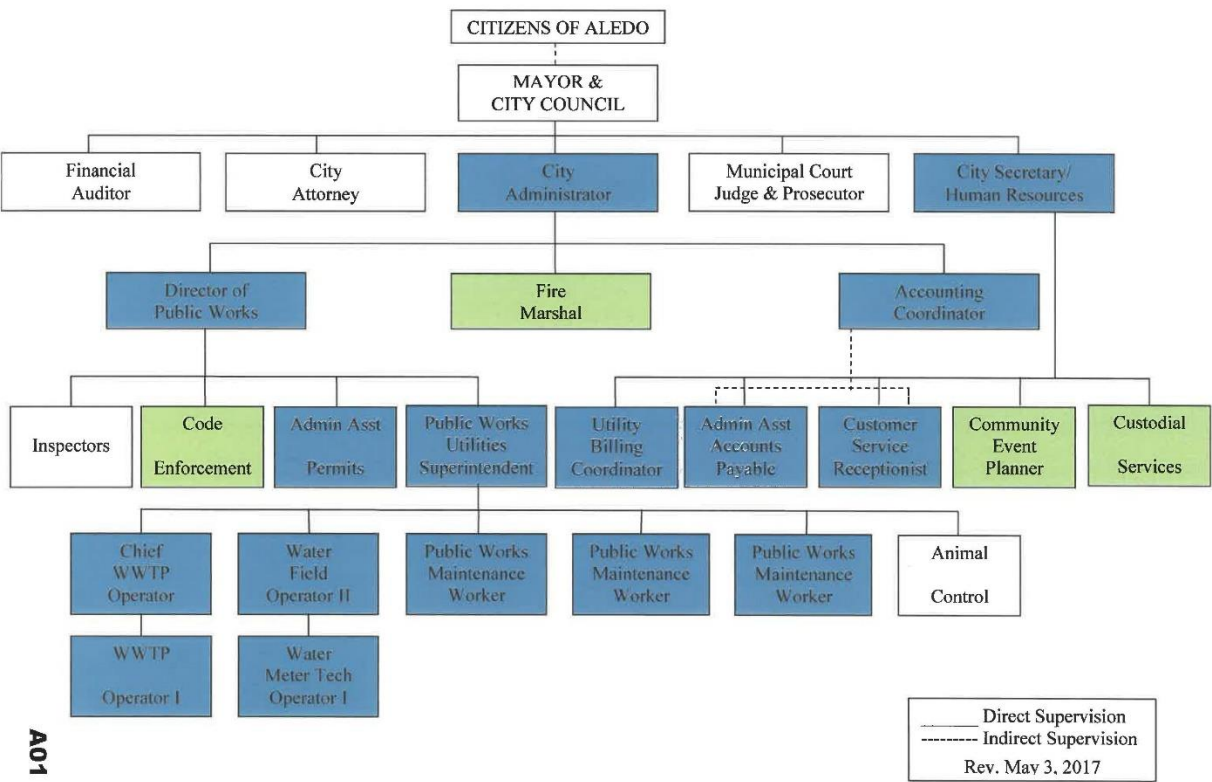
The City's property tax rate was previously lowered by almost one cent to \$0.3850 per \$100 of assessed property value, and remains one of the lowest tax rates in the area. Also, City revenues continue to increase due to the increased commercial and residential activity, and City government operation expenses have been reduced with the goal being a cost effective municipal organization.

The preparation of the annual audit report could not be accomplished without the efficient and dedicated services of City staff. I wish to express my appreciation to staff for their hard work. I also wish to thank our Mayor and City Council members for their guidance and support concerning the financial operations of the City.

Sincerely,

Ken Pfeifer
City Administrator
City of Aledo

Aledo Organizational Chart



A01

City of Aledo, Texas Principal Officials

City Council

Kit Marshall, Mayor

W. Spencer Perry– Place 1

Jean E. Bailey – Place 2

Robert Wood – Place 3

Kim Hiebert – Place 4 – Mayor Pro Tem

Daniel Herbert - Place 5

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Financial Section

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Report of Independent Auditors

To the Mayor and Members of the City Council
City of Aledo, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Aledo (The “City”), Texas, as of and for the year ended September 30, 2017, which collectively comprise the City’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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.

Auditors’ 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, the business-type activities, and the aggregate remaining fund information of the City as of September 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity 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, schedule of changes in net pension liability and related ratios, schedule of contributions, and budgetary comparison information on pages 3 – 9, 41-45 and 48 – 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The introductory section on pages i – iii has not been subjected to the auditing procedures applied in the audit of the based financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2018, on our consideration of the City of Aledo'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 reports 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 *Governments Auditing Standards* in considering City of Aledo, Texas' internal control over financial reporting and compliance.

McAul & Associates, P.C.

Richardson, Texas
March 27, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Aledo, Texas
Management Discussion and Analysis
For the Fiscal Year Ended September 30, 2017

Management's discussion and analysis (MD&A) of the City of Aledo's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2017. The MD&A should be read in conjunction with the accompanying financial statements and the notes to those financial statements.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the City exceeded liabilities at the close of the 2017 fiscal year by \$22,481,084 (net position, page 10). Of this amount, \$3,382,672 is restricted for specific purposes and \$3,664,108 represents unrestricted net position that may be used to meet the City's ongoing obligations to citizens and creditors. As required by GASB Statement No. 34, net position also reflects \$15,434,304 that is the net investment in capital assets.

In contrast to the government-wide statements, the governmental fund statements report combined fund balances at year-end on page 12 of \$3,367,740 of which \$510,397 represents restricted fund balance for Economic Development. Unassigned fund balance in the General Fund is maintained as emergency reserves. The General Fund unassigned fund balance of \$3,020,935 equals 165% of total General Fund expenditures.

Following is a table of the City's designated uses of unrestricted cash balances as of September 30, 2017.

City of Aledo, Texas					
Designated Uses of Unrestricted Cash Balances					
September 30, 2017					
	General Fund	W/WW Operating Fund	Impact Fees	EDC Fund	TOTAL
Reserved Cash and Cash Equivalents in TexStar	\$ 1,849,989	\$ 950,420	\$ 1,760,842	\$ 241,686	\$ 4,802,937
Reserved Cash and Cash Equivalents in FFB	21,243	-	140,408	229,929	391,579
Unrestricted Cash and Cash Equivalents	980,931	290,061	-	-	1,270,992
Cash and Cash Equivalents	<u>\$ 2,852,163</u>	<u>\$ 1,240,481</u>	<u>\$ 1,901,250</u>	<u>\$ 471,614</u>	<u>\$ 6,465,509</u>
Designated Uses of Unrestricted Cash					
90 Days Reserves	680,789	631,681	-	-	1,312,470
Emergency Reserves	100,000	100,000	-	-	200,000
Gas Lease Bonus and Royalty Reserves	12,813	-	-	-	12,813
Municipal Court Reserves	8,429	-	-	-	8,429
Future Water Meter Change Outs	-	22,500	-	-	22,500
Projects:					
Additional Street Repair	28,000	-	-	-	28,000
Aledo Commons Projects	19,884	-	-	100,000	119,884
Community Center Kitchen Renovation	10,000	-	-	-	10,000
Old Tunnel Lift Station Project	-	-	846,075	-	846,075
Sewer Study	-	-	57,000	-	57,000
TAP-Sidewalks	133,470	-	-	-	133,470
Water Line Improvements	-	-	92,870	-	92,870
Omitted Property Taxes	207,514	-	-	-	207,514
Total Designated Uses of Unrestricted Cash	<u>\$ 1,200,899</u>	<u>\$ 754,181</u>	<u>\$ 995,945</u>	<u>\$ 100,000</u>	<u>\$ 3,051,025</u>
Remaining Reserved Cash and Equivalents and					
Undesignated Cash and Cash Equivalents	<u>\$ 1,651,263</u>	<u>\$ 486,300</u>	<u>\$ 905,305</u>	<u>\$ 371,614</u>	<u>\$ 3,414,484</u>

On pages 33 and 34, the City's debt for certificates of obligation in the business-type activities decreased by \$360,000 due to principal portion of scheduled annual debt service payments and issuance of 2017 refunding bond.

City of Aledo, Texas
Management Discussion and Analysis
For the Fiscal Year Ended September 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private sector business. They present the financial picture of the City from an economic resource measurement focus using the accrual basis of accounting. These statements include all assets of the City (excluding infrastructure purchased or donated prior to October 1, 2003) as well as all liabilities. Additionally, certain eliminations have occurred as prescribed by GASB Statement No. 34 in regards to interfund activity, payables, and receivables.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how net position changed during the most recent fiscal year using the full accrual basis of accounting. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other business functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include Administration, Public Works and Streets, Municipal Court, Parks and Recreation, Animal Control and the Community Center. Appropriations with a contract are made to the East Parker County Library and the Parker County Sheriff's Office. The business-type activity of the City is Water and Sewer Operations and contracting for solid waste services. All governmental and business-type activities included in the government-wide financial statements are functions of the City (known as the primary government). The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

City of Aledo, Texas
Management Discussion and Analysis
For the Fiscal Year Ended September 30, 2017

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, however, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City maintains two governmental funds, the general fund and the economic development corporation fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, and the economic development corporation fund.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement (original versus final) has been provided in this report to demonstrate compliance with this budget. The governmental fund financial statements can be found on pages 12 through 15 of this report.

Proprietary funds - Proprietary funds can be further classified into two different types of funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among a government's various functions. The City allocates costs directly to the operating departments and accordingly does not account or report any internal service funds.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 16 through 19 of this report.

Notes to the basic financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 40 of this report.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning pension benefits. The required supplementary information can be found starting on page 41 of this report.

City of Aledo, Texas
Management Discussion and Analysis
For the Fiscal Year Ended September 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities by \$22,481,084 as of September 30, 2017.

Net Position
September 30, 2017

	Governmental Activities		Business-type Activities		Total	
	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16
Current and Other Assets	\$ 3,715,611	\$ 3,181,235	\$ 3,762,974	\$ 3,397,785	\$ 7,478,585	\$ 6,579,020
Capital Assets	7,234,040	7,172,065	21,458,615	21,500,183	28,692,655	28,672,248
Total Assets	10,949,651	10,353,300	25,221,589	24,897,968	36,171,240	35,251,268
Deferred Outflows of Resources	42,205	43,305	702,075	27,603	744,280	70,908
Long-term Liabilities Outstanding	61,525	58,561	13,003,057	12,663,209	13,064,582	12,721,770
Other Liabilities	335,657	183,598	1,034,197	913,512	1,369,854	1,097,110
Total Liabilities	397,182	242,159	14,037,254	13,576,721	14,434,436	13,818,880
Deferred Inflows of Resources	-	-	-	-	-	-
Net Position:						
Net investment in capital assets	7,234,040	7,172,065	8,200,264	8,029,220	15,434,304	15,201,285
Restricted for:						
Economic Development	510,397	408,193	-	-	510,397	408,193
Capital improvements	-	-	971,025	1,015,368	971,025	1,015,368
Impact fees	-	-	1,901,250	1,494,647	1,901,250	1,494,647
Unrestricted	2,850,237	2,574,188	813,871	809,615	3,664,108	3,383,803
Total Net Position	<u>\$ 10,594,674</u>	<u>\$ 10,154,446</u>	<u>\$ 11,886,410</u>	<u>\$ 11,348,850</u>	<u>\$ 22,481,084</u>	<u>\$ 21,503,296</u>

The largest portion of the City's net position (69%) reflects its investment in capital assets (land, building, infrastructure, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses those assets to provide services to the 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 used to liquidate these liabilities. An additional \$3,382,672 or 15% of the City's net position represents resources that are subject to external restrictions on how they may be used. All restricted assets of the City are being held for capital improvements, debt service requirements on the City's outstanding debt, and economic development. The remaining portion of the City's net position (16%) may be used to meet the City's ongoing obligations to citizens and creditors.

City of Aledo, Texas
Management Discussion and Analysis
For the Fiscal Year Ended September 30, 2017

Changes in Net Position
September 30, 2017

	Governmental Activities		Business-type Activities		Total	
	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16
Revenue						
Program revenue						
Charges for Services	\$ 571,809	\$ 652,075	\$ 2,700,149	\$ 2,409,762	\$ 3,271,958	\$ 3,061,837
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	65,993	1,357,182	-	1,114,203	65,993	2,471,385
General revenue						
Property Taxes	1,102,561	904,663	-	-	1,102,561	904,663
Sales Taxes	710,678	626,772	-	-	710,678	626,772
Franchise Taxes	202,585	239,570	-	-	202,585	239,570
Impact Fees	-	-	395,908	332,520	395,908	332,520
Interest on Investments	21,131	7,582	28,666	10,364	49,797	17,946
Land sale	-	8,270	-	-	-	8,270
Miscellaneous	15,247	18,616	-	-	15,247	18,616
Total revenues	2,690,004	3,814,730	3,124,723	3,866,849	5,814,727	7,681,579
Expense						
Administration	858,841	763,529	-	-	858,841	763,529
Public works and city streets	985,411	981,147	-	-	985,411	981,147
Municipal court	8,379	8,422	-	-	8,379	8,422
Parks and recreation	125,114	123,355	-	-	125,114	123,355
Community center	64,968	34,882	-	-	64,968	34,882
Water and Sewer	-	-	2,794,226	2,588,086	2,794,226	2,588,086
Total expenses	2,042,713	1,911,335	2,794,226	2,588,086	4,836,939	4,499,421
Change in Net Position Before Transfers	647,291	1,903,395	330,497	1,278,763	977,788	3,182,158
Transfers	(207,063)	(214,205)	207,063	214,205	-	-
Change in Net Position	440,228	1,689,190	537,560	1,492,968	977,788	3,182,158
Net Position, beginning of year	10,154,446	8,465,256	11,348,850	9,855,882	21,503,296	18,321,138
Net Position, end of year	<u>\$ 10,594,674</u>	<u>\$ 10,154,446</u>	<u>\$ 11,886,410</u>	<u>\$ 11,348,850</u>	<u>\$ 22,481,084</u>	<u>\$ 21,503,296</u>

In total, the City's total net position increased by \$977,788 during the current fiscal year. The City's governmental activities increased net position by \$440,228. The total cost of all governmental activities this year was \$2,042,713. The amount that taxpayers paid for these activities through property taxes was \$1,102,561 or 54%. The City's business-type activities increased net position by \$537,560. The total cost of all business-type activities for fiscal year 2017 was \$2,794,226.

Governmental activities – Governmental activities increased the City's net position by \$425,873. The key elements of this increase are as follows:

- Increase of property taxes of approximately \$200,000.
- Increase of sales taxes of approximately \$90,000.

Business-type activities – Business-type activities increased the City's net position by \$530,843. The key element of this increase was the charges of services of approximately \$300,000.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

City of Aledo, Texas
Management Discussion and Analysis
For the Fiscal Year Ended September 30, 2017

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, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$3,367,740 (page 15), an increase of \$368,035 from the prior year. Unassigned fund balance reported in the general fund of \$3,020,935 an increase of approximately \$425,575, represents amounts available for spending at the City’s discretion. The key factor in this increase was savings through efficient operation of various City Departments.

As a measure of the General Fund’s liquidity, we compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 165% of the total fund expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

Adjustments to the original Fiscal Year 2016-2017 General Fund annual budget can be briefly summarized as sales taxes, construction fees, and personnel costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets: The City’s investments in total capital assets for its governmental and business-type activities as of September 30, 2017, amounts to \$28,692,655 (net of accumulated depreciation on page 11). Investments in capital assets related to governmental activities of \$7,234,040, includes land and land rights, buildings and improvements, street reconstruction, other improvements, vehicles, and office furniture and equipment. The City’s investments in capital assets related to business-type activities of \$21,458,615, includes land and land rights, the water and sewer systems, vehicles and other equipment.

Major capital asset events during the current fiscal year include:

- New Aledo Commons parking lot
- Community Center Renovations
- Pickup and utility vehicle
- TAP Sidewalk grant match amount
- Street Repair program

City of Aledo, Texas
Capital Assets
September 30, 2017

	Governmental Activities		Business-type Activities		Total	
	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16
Land	\$ 194,625	\$ 194,625	\$ 334,604	\$ 334,604	\$ 529,229	\$ 529,229
Construction in Progress	173,488	75,818	74,603	74,603	248,091	150,421
Water system	-	-	11,868,784	11,868,784	11,868,784	11,868,784
Sewer system	-	-	15,381,623	14,709,451	15,381,623	14,709,451
Buildings and improvements	398,071	352,088	3,210	3,210	401,281	355,298
Street infrastructure	6,846,873	6,585,782	-	-	6,846,873	6,585,782
Vehicles	223,750	185,317	124,953	124,953	1,433,430	1,433,430
Machinery and equipment	126,858	126,858	240,805	232,810	464,555	418,127
Storm water drainage	1,308,477	1,308,477	-	-	126,858	126,858
Other improvements	418,792	288,031	-	-	418,792	288,031
Accumulated depreciation	(2,456,894)	(1,944,931)	(6,569,967)	(5,848,232)	(9,026,861)	(7,793,163)
Total	<u>\$ 7,234,040</u>	<u>\$ 7,172,065</u>	<u>\$ 21,458,615</u>	<u>\$ 21,500,183</u>	<u>\$ 28,692,655</u>	<u>\$ 28,672,248</u>

City of Aledo, Texas
Management Discussion and Analysis
For the Fiscal Year Ended September 30, 2017

Additional information on the City's capital assets can be found in Note 5 of this report.

Long-term debt - At the end of the current fiscal year, the City had total debt outstanding of \$12,745,000, all of which represents certificates of obligation secured by property tax collections. In total, the City's long-term debt decreased by \$360,000 during the current fiscal year.

City of Aledo, Texas
Long Term Debt
September 30, 2017

	Business-type Activities	
	FY 2016-17	FY 2015-16
Certificates of Obligation	12,745,000	13,105,000
Total	<u>12,745,000</u>	<u>13,575,000</u>

State statutes limit the total property tax rate to \$2.50 per \$100 assessed valuation. The City's total property tax rate for 2016-17 was \$0.3850 per \$100 assessed valuation, of which \$0.09771424 was for annual water and sewer debt service. Additional information on the City's long-term debt can be found in Note 7 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES – The annual budget is developed to provide efficient, effective and economic uses of the City's resources, as well as, a means to accomplish the highest priority objectives. Through the budget, the City Council sets the direction of the City, allocates its resources and establishes its priorities.

In considering the fiscal year 2018 budget, City Council and management considered the following factors:

- The FY2018 adopted property tax rate was \$0.3850 per \$100 assessed valuation.
- The major expenditure categories, including debt service, were for water purchases from the City of Fort Worth, law enforcement contract expenses for two County deputies, animal control contract services with the City of Weatherford, City street improvements, restrooms in Aledo Commons, kitchen renovations at the Community Center, sidewalk grant match amount for additional sidewalks on the west side of the City, new Public Works pickup, a sewer study and upsizing off-site water lines for future residential growth.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, and investors with a general overview of the City finances and to show the City's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact the City Secretary at: 200 Old Annetta Road, Aledo TX 76008.

BASIC FINANCIAL STATEMENTS

City of Aledo, Texas
Statement of Net Position

September 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,452,546	\$ 290,061	\$ 1,742,607
Restricted cash and cash equivalents - current	1,871,231	3,003,706	4,874,937
Restricted cash and cash equivalents - non current	-	163,056	163,056
Receivables (net of allowance for uncollectible)	91,594	297,192	388,786
Due from other governments	123,054	-	123,054
Prepaid Expense	13,594	3,203	16,797
Inventory	-	5,756	5,756
Capital Assets:			
Land	194,625	334,604	529,229
Construction in progress	173,488	74,603	248,091
Buildings and improvements	398,071	3,210	401,281
Automobiles	223,750	124,953	348,703
Machinery and equipment	126,858	240,805	367,663
Water and sewer system	-	27,250,407	27,250,407
Other improvements	418,792	-	418,792
Street infrastructure	6,846,873	-	6,846,873
Storm Water Drainage	1,308,477	-	1,308,477
Accumulated depreciation	(2,456,894)	(6,569,967)	(9,026,861)
Total capital assets	7,234,040	21,458,615	28,692,655
Total assets	10,786,059	25,221,589	36,007,648
Deferred outflows of resources			
Deferred outflows of resources	42,205	702,075	744,280
Total deferred outflows of resources	42,205	702,075	744,280
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	160,801	285,002	445,803
Accrued interest	-	53,955	53,955
Customer deposits	-	153,738	153,738
Due within one year	11,264	541,502	552,766
Noncurrent liabilities:			
Net pension liability	61,525	45,421	106,946
Due in more than one year	-	12,957,636	12,957,636
Total liabilities	233,590	14,037,254	14,270,844
Net Position			
Net investment in capital assets	7,234,040	8,200,264	15,434,304
Restricted for:			
Economic development	510,397	-	510,397
Capital improvement	-	971,025	971,025
Impact fees	-	1,901,250	1,901,250
Unrestricted	2,850,237	813,871	3,664,108
Total net position	\$ 10,594,674	\$ 11,886,410	\$ 22,481,084

The accompanying notes are an integral part of this statement

City of Aledo, Texas
Statement of Activities

September 30, 2017

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental activities:							
Administration	\$ 858,841	\$ 436,323	\$ -	\$ -	\$ (422,518)	\$ -	\$ (422,518)
Public works	505,258	96,677	-	-	(408,581)	-	(408,581)
City streets	480,153	-	-	65,993	(414,160)	-	(414,160)
Municipal court and other fees	8,379	8,624	-	-	245	-	245
Parks and recreation	125,114	16,220	-	-	(108,894)	-	(108,894)
Community center	64,968	13,965	-	-	(51,003)	-	(51,003)
Total governmental activities	2,042,713	571,809	-	65,993	(1,404,911)	-	(1,404,911)
Business-type activities:							
Water and sewer	2,794,226	2,700,149	-	-	-	(94,077)	(94,077)
Total business-type activities	2,794,226	2,700,149	-	-	-	(94,077)	(94,077)
Total primary government	<u>\$ 4,836,939</u>	<u>\$ 3,271,958</u>	<u>\$ -</u>	<u>\$ 65,993</u>	<u>\$ (1,404,911)</u>	<u>\$ (94,077)</u>	<u>\$ (1,498,988)</u>
General revenues:							
Taxes							
Property taxes					\$ 1,102,561	\$ -	\$ 1,102,561
Sales taxes					710,678	-	710,678
Franchise taxes					202,585	-	202,585
Interest on investments					21,131	28,666	49,797
Impact fees					-	395,908	395,908
Miscellaneous					15,247	-	15,247
Transfers					(207,063)	207,063	-
Total general revenues and transfers					<u>1,845,139</u>	<u>631,637</u>	<u>2,476,776</u>
Change in net position					440,228	537,560	977,788
Net position - beginning					10,154,446	11,348,850	21,503,296
Net position - ending					<u>\$ 10,594,674</u>	<u>\$ 11,886,410</u>	<u>\$ 22,481,084</u>

The accompanying notes are an integral part of this statement

City of Aledo, Texas
Balance Sheet - Governmental Funds

September 30, 2017

	General Fund	Economic Development Fund	Nonmajor Governmental Fund	Total Governmental Funds
Assets				
Deposits and investments	\$ 3,015,755	\$ 471,614	\$ -	\$ 3,487,369
Receivables:				
Property taxes, net of allowance for uncollectible of \$8,837	50,076	-	-	50,076
Accounts receivable	41,518	-	-	41,518
Due from other governments - sales tax	82,036	41,018	-	123,054
Prepaid expenses	13,594	-	-	13,594
Total assets and other debits	<u>3,202,979</u>	<u>512,632</u>	<u>-</u>	<u>3,715,611</u>
Liabilities and Fund Balances				
Liabilities:				
Claim on cash	-	-	163,592	163,592
Accounts payable	142,500	2,235	-	144,735
Accrued liabilities	16,066	-	-	16,066
Deferred income	23,478	-	-	23,478
Total liabilities	<u>182,044</u>	<u>2,235</u>	<u>163,592</u>	<u>347,871</u>
Fund balances:				
Restricted	-	510,397	(163,592)	346,805
Unassigned	3,020,935	-	-	3,020,935
Total fund balances	<u>3,020,935</u>	<u>510,397</u>	<u>(163,592)</u>	<u>3,367,740</u>
Total liabilities and fund balances	<u>\$ 3,202,979</u>	<u>\$ 512,632</u>	<u>\$ -</u>	<u>\$ 3,715,611</u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position

September 30, 2017

Total fund balances - governmental funds	\$ 3,367,740
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	7,234,040
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.	23,478
Long-term liabilities, including net pension liability and compensated absences, are not due and payable in the current period and therefore are not reported in the fund financial statements.	<u>(30,584)</u>
Net assets of governmental activities	<u><u>\$ 10,594,674</u></u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds

Year ended September 30, 2017

	General Fund	Economic Development Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues				
Taxes:				
Property	\$ 1,089,161	\$ -	\$ -	\$ 1,089,161
Sales	473,785	236,893	-	710,678
Franchise	202,585	-	-	202,585
Building permits	436,323	-	-	436,323
Court fines and fees	8,624	-	-	8,624
Construction fees	96,677	-	-	96,677
Rental revenue	13,965	-	-	13,965
Event revenue	3,070	13,150	-	16,220
Credit card revenue	875	-	-	875
Interest income	18,930	2,201	-	21,131
Park donation	-	23,395	-	23,395
Grant revenue	-	-	42,598	42,598
Miscellaneous	12,006	2,366	-	14,372
Total revenues	<u>2,356,001</u>	<u>278,005</u>	<u>42,598</u>	<u>2,676,604</u>
Expenditures				
Current:				
Administration	732,808	18,649	-	751,457
Public works	470,854	-	-	470,854
City streets	84,286	-	34,404	118,690
Municipal court	7,514	-	-	7,514
Parks and recreation	81,605	-	-	81,605
Community center	64,968	-	-	64,968
Event expense	7,815	23,800	-	31,615
Credit card expense	865	-	-	865
Capital outlay	375,983	30,017	167,938	573,938
Total expenditures	<u>1,826,698</u>	<u>72,466</u>	<u>202,342</u>	<u>2,101,506</u>
Excess (deficiency) of revenues over expenditures	529,303	205,539	(159,744)	575,098
Other financing sources (uses)				
Transfers in	227,225	-	-	227,225
Transfers out	(330,953)	(103,335)	-	(434,288)
Total other financing sources (uses)	<u>(103,728)</u>	<u>(103,335)</u>	<u>-</u>	<u>(207,063)</u>
Net change in fund balances	425,575	102,204	(159,744)	368,035
Fund balances - beginning	2,595,360	408,193	(3,848)	2,999,705
Fund balances - ending	<u>\$ 3,020,935</u>	<u>\$ 510,397</u>	<u>\$ (163,592)</u>	<u>\$ 3,367,740</u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities

Year ended September 30, 2017

Net changes in fund balances - total governmental funds	\$ 368,035
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	573,938
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(511,963)
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	882
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	<u>9,336</u>
Change in net assets of governmental activities	<u><u>\$ 440,228</u></u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas
Statement of Net Position - Proprietary Funds

September 30, 2017

	<u>Business Type Activities - Enterprise Fund</u>
Assets	
Current assets:	
Deposits and investments	\$ 290,061
Accounts receivable, net of allowance for uncollectible of \$34,092	297,192
Prepaid expense	3,203
Inventory	<u>5,756</u>
Total current assets	596,212
 Restricted deposits and investments (see Note 6 on page 32):	
Restricted assets - current	3,003,706
Restricted assets - non current	<u>163,056</u>
Total restricted assets	3,166,762
 Non-current assets:	
Capital assets	
Land	334,604
Construction in progress	74,603
Buildings and improvements	3,210
Automobiles	124,953
Machinery and equipment	240,805
Water and sewer system	27,250,407
Less accumulated depreciation	<u>(6,569,967)</u>
Net capital assets	<u>21,458,615</u>
Total noncurrent assets	
Total Assets	<u>25,221,589</u>
 Deferred outflows of resources	
Deferred outflows of resources	<u>702,075</u>
Total deferred outflows of resources	<u>\$ 702,075</u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas
Statement of Net Position - Proprietary Funds

September 30, 2017

	Business Type Activities - Enterprise Fund
Liabilities	
Current liabilities:	
Accounts payable	\$ 268,656
Accrued expenses	16,346
Compensated absences	6,502
Current portion of certificates of obligation payable	<u>535,000</u>
Total current liabilities	826,504
 Current liabilities payable from restricted assets:	
Accrued interest	53,955
Customer deposits	<u>153,738</u>
Total current liabilities payable from restricted assets	207,693
 Noncurrent liabilities:	
Net pension liability	45,421
Certificates of obligation payable - long term	<u>12,957,636</u>
Total noncurrent liabilities	<u>13,003,057</u>
Total Liabilities	14,037,254
 Net position	
Net investment in capital assets	8,200,264
Restricted for:	
Capital projects	971,025
Impact fees	1,901,250
Unrestricted	<u>813,871</u>
Total Net Position	<u><u>\$ 11,886,410</u></u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds

Year ended September 30, 2017

	Business Type Activities - Enterprise Fund
Operating revenues:	
Water and sewer service	\$ 2,380,344
Credit card fees	10,110
Refuse revenue	234,454
Meter box fee	47,565
Other revenues	<u>27,676</u>
Total operating revenues	2,700,149
Operating expenses	
Administrative costs	332,871
Supplies and maintenance	561,230
Utilities	101,924
Professional and contract services	87,035
Refuse expenses	233,588
Credit card expense	11,460
Other operating expenses	9,693
Depreciation	<u>721,735</u>
Total operating expenses	<u>2,059,536</u>
Operating income	640,613
Nonoperating revenues (expenses):	
Interest income	28,666
Impact fees	395,908
Bond issue cost	(207,721)
Donated assets	-
Interest expense and fiscal agent fee	<u>(526,969)</u>
Total nonoperating revenues (expense)	<u>(310,116)</u>
Income (loss) before transfers	330,497
Transfers in	330,953
Transfers out	<u>(123,890)</u>
Net transfer in	<u>207,063</u>
Change in net assets	537,560
Net assets - beginning	<u>11,348,850</u>
Net assets - ending	<u><u>\$ 11,886,410</u></u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas
Statement of Cash Flows – Proprietary Funds

Year ended September 30, 2017

	Business Type Activities - Enterprise Fund Water and Sewer
Operating Activities	
Cash received from customers	\$ 2,440,753
Payments to vendors	(711,333)
Employee payroll	(1,006,221)
Net cash provided by operating activities	<u>723,199</u>
Noncapital Financing Activities	
Transfers to other funds	(123,890)
Transfers from other funds	330,953
Net cash provided by noncapital financing activities	<u>207,063</u>
Capital and Related Financing Activities	
Capital expenditures	(680,167)
Bond proceeds	9,862,027
Repayment of debt	(9,474,391)
Bond issuance costs	(207,721)
Impact fees	395,908
Interest paid on debt	(509,856)
Net cash used in capital and related financing activities	<u>(614,200)</u>
Investing Activities	
Change in restricted assets	(384,838)
Interest received	28,666
Net cash provided by investing activities	<u>(356,172)</u>
Net increase (decrease) in cash and cash equivalents	(40,110)
Cash and cash equivalents - beginning	330,171
Cash and cash equivalents - ending	<u><u>\$ 290,061</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 640,613
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	721,735
Change in assets and liabilities:	
Prepaid expense	(2,286)
Accounts receivable	(25,808)
Accounts payable and accrued liabilities	56,205
Net pension liability	7,212
Deferred outflows and inflows of resources	(674,472)
Net cash provided by operating activities	<u><u>\$ 723,199</u></u>

The accompanying notes are an integral part of this statement.

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City of Aledo, Texas
Notes to Basic Financial Statements
September 30, 2017

1. Summary of Significant Accounting Policies

The City of Aledo, Texas was incorporated in 1963 and has a population of approximately 3,540. The City operates under a General Law - Type A City and provides the following services: administration, public works and streets, water and sewer, municipal court, parks and recreation, and community center.

The financial statements of the City of Aledo are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements include the primary government and organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of service performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the primary government. Complete financial statements for the individual component units may be obtained at the City's office.

The following entity was found to be a component unit of the City and is included in the combined financial statements:

Blended Component Unit - Aledo Economic Development Corporation - On May 10, 2008, the voters approved the creation of this Corporation for the purpose of projects and improvements that promote economic development within the City. Funding for the Economic Development Corporation is generated

City of Aledo, Texas

Notes to Basic Financial Statements

A. Financial Reporting Entity (continued)

from 0.50% sales tax. The Corporation's governing body is substantially the same as the governing body of the City of Aledo. There are seven directors appointed by the City Council. At least three of the directors must not be employees, officers, or members of the City Council. All Board members are appointed by the City Council. The Corporation is authorized to sell bonds or other forms of indebtedness. Upon dissolution of the Corporation, the assets of the Corporation shall be distributed to the City of Aledo, Texas. The Corporation provides all of its services to the City of Aledo, Texas.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of Net Position and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes while business type activities rely, to a significant extent, on fees and charges for support.

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues. Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Governmental-Wide Financial Statements

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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Revenues are classified as program revenues and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, investment earnings and various other revenues.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be

City of Aledo, Texas
Notes to Basic Financial Statements

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue. Expenditures generally are recorded when a fund liability is incurred.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Economic Development Fund is used to account for the accumulation of financial resources to promote economic development within the City. The fund balance is reserved to signify the amounts are restricted for the development and improvements that will promote economic growth.

Proprietary Fund Financial Statements

The City reports the following major proprietary fund:

Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is that the costs (expenses) of providing goods or services to the general public on a continuing basis is to be financed or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel, contractual and operational services, supplies, maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Basis of Accounting

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

The General Fund and the other governmental fund are accounted for using the modified accrual basis of accounting. Its revenues are recognized when they become measurable and available as net current assets.

Gross receipts and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time.

City of Aledo, Texas
Notes to Basic Financial Statements

D. Basis of Accounting (continued)

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: principal and interest on general long-term debt which is recognized when due.

The Water and Sewer Fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

E. Budgets and Budgetary Accounting

The City maintains control over expenditures in the General Fund, the Economic Development Corporation, the Water and Sewer Fund, and the Water and Sewer Debt Service Fund by the establishment of an annual budget. The annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget, as formally adopted by the City Council, establishes the maximum authorization of operating funds to be expended by any fund. Any subsequent amendment thereto must be approved by the Council.

Unused appropriations for all of the budgeted funds lapse at the end of the year. The amended budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

F. Cash Equivalents

For purposes of the statement of cash flows, the City considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The carrying value of the investments in local government investment pools is determined by the valuation policy of the investment pool; either at amortized cost or net asset value of the underlying pool shares, as further described in Note 2.

G. Allowance for Uncollectible Accounts

The allowance for doubtful accounts is calculated using prior bad debt experience and takes into account management's estimate of specific uncollectible accounts through review of individual accounts and other information available.

H. Inventory

The enterprise fund inventories are stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

I. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, sidewalks, curbs and drainage systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$3,000 or more and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

City of Aledo, Texas
Notes to Basic Financial Statements

I. Capital Assets (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest of approximately \$0 was capitalized during the year ended September 30, 2017.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	15-30 Years
Water and sewer system infrastructure	5-40 Years
Machinery and equipment	3-15 Years
Vehicles	3-15 Years
Other improvements	3-15 Years
Street infrastructure	15 Years

Infrastructure acquired prior to October 1, 2003 has not been recorded. The City has elected not to report major general infrastructure assets retroactively in accordance with GASB Statement No. 34.

J. Nature and Purpose of Designations of Fund Equity

The City has implemented Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) during the year ending September 30, 2011. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance that can be more consistently applied and by clarifying the existing governmental fund type definitions. Fund balance categories under GASB 54 are Nonspendable and Spendable. Classifications under the Spendable category are Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the City classifies governmental fund balances effective with its financial statement ended September 30, 2011, and thereafter, as follows:

1. Nonspendable Fund Balance – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. Examples include inventories, long-term receivables, endowment principal, and/or prepaid/deferred items.
2. Spendable Fund Balance
 - a. Restricted Fund Balance – Includes amounts that can be spent only for the specific purposes as imposed by law, or imposed by creditors, grantors, contributors, or other governments' laws and regulations. Examples include federal and state grant programs, retirement of long-term debt, and construction.
 - i. The aggregate fund balance of the Economic Development Corporation is legally restricted for the promotion of economic development within the City.

City of Aledo, Texas

Notes to Basic Financial Statements

J. Nature and Purpose of Designations of Fund Equity (continued)

- b. Committed Fund Balance – Includes amounts that can be used only for the specific purposes as determined by the governing body by formal action recorded in the minutes of the governing body. Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. The City Council must take action to commit funds for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year.
- c. Assigned Fund Balance – Includes amounts intended to be used by the City for specific purposes. Pursuant to GASB 54, this intent can be expressed by an official or body to which the governing body delegates that authority. Examples take on the similar appearance as those enumerated for committed fund balance, including the appropriation of existing fund balance to eliminate a deficit in next year's budget.
- d. Unassigned Fund Balance – Includes the residual classification of the general fund and includes all amounts not contained in other classifications. By accounting for amounts in other funds, the City has implicitly assigned the funds for the purposes of those particular funds.

In circumstances where 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 extended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly unassigned fund balance.

K. Net Position

Net position represents the difference between assets and liabilities. Net Position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net Position are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. In circumstances where an expense is to be made for a purpose for which amounts are available in multiple net position classifications, restricted Net Position will be fully utilized first followed by unrestricted as necessary.

L. 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.

M. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the City's participation in the Texas Municipal League Intergovernmental Risk Pool (TMLIRP) for liability, property, and workers' compensation insurance. These are self-sustaining risk pools operated on a statewide basis for the benefit of several hundred Texas cities and other public entities. The City pays annual premiums to the TMLIRP, which retains risk of loss up to \$1,000,000 for property and liability

City of Aledo, Texas
Notes to Basic Financial Statements

M. Risk Management (continued)

insurance and up to \$1,500,000 for workers' compensation and obtains independent coverage for losses in excess of these amounts. The City retains no risk except for deductible amounts. There have been no significant reductions in coverage in the past fiscal year and there have been no settlements exceeding insurance coverage in the current year or the past three fiscal years.

2. Deposits, Securities, and Investments

Chapter 2256 of the Texas Government Code, known as the Public Funds Investment Act (the "Act") authorizes the City to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal, liquidity, diversification, availability of cash to meet the City's obligations and maximization of interest earnings. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by City Council. The Investment Policy includes a list of authorized investments and a maximum allowable maturity of any individual investment. In addition it includes an "Investment Strategy" that specifically addresses each fund's investment options and describes the diversification, management of maturities, pooling of deposits and investments, depository bank relationships, and maximizing investable cash balances.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities;
2. Direct obligations of the State of Texas or its agencies and instrumentalities, excluding mortgage backed securities;
3. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or respective agencies and instrumentalities, excluding mortgage-related securities;
4. Collateralized Certificates of Deposit issued by a state or national bank domiciled in the state or a federal credit union domiciled in the state that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor or as further described in the Investment policy;
5. Eligible Local Government Investment Pools;
6. Repurchase agreements, reverse repurchase agreements, bankers' acceptances and commercial paper that are described in more detail in the Investment policy; and
7. Regulated No-Load Money Market Mutual Funds.

All investments held by the City at September 30, 2017 were in the TexSTAR Investment Pool.

City of Aledo, Texas
Notes to Basic Financial Statements

2. Deposits, Securities, and Investments (continued)

TexSTAR was created in April 2003 pursuant to the Interlocal Cooperation Act of the State of Texas, chapter 791 of the Texas Government Code and the Public Funds Investment Act, chapter 2256 of the Texas Government Code. TexSTAR policies require that local government deposits be used to purchase investments authorized by the Texas Public Funds Investment Act. The State Comptroller of Public Accounts exercises responsibility over TexSTAR. TexSTAR is administered by Hilltop Securities, Inc. and J.P. Morgan Investment Management. J.P. Morgan Investment Management, Inc. provides investment advisory services. The investment pools do not have any limitations or restrictions on withdrawals, such as notice periods or maximum transaction amounts, and do not impose any liquidity or redemption gates.

The bylaws set forth procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through daily, weekly, and monthly reporting requirements. TexSTAR is rated AAAM by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The stated objective of TexSTAR is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

Cash and cash equivalents as of September 30, 2017, consist of the following:

Deposits with financial institutions	\$ 1,599,600
Investments	<u>5,181,000</u>
	<u>\$ 6,780,600</u>
 Governmental activities	 \$ 3,323,777
Business-type activities	<u>3,456,823</u>
	<u>\$ 6,780,600</u>

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72 provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The investments in government pools are measured at net asset value or amortized cost and are exempt from reporting in the fair value hierarchy

City of Aledo, Texas
Notes to Basic Financial Statements

2. Deposits, Securities, and Investments (continued)

A. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
TexSTAR	\$ 5,181,000	28 days

B. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment.

State statute requires that investments in Local Government Investment Pools be rated AAA or the equivalent by a nationally recognized credit rating agency. As of September 30, 2017, the TexSTAR investment pool was rated AAAM by Standard and Poor's.

C. Concentration of Credit Risk

In accordance with the City's Investment policy, the City limits their exposure of concentration of credit risk by restricting investments in the following investment instruments:

	<u>Maximum Percentage of Portfolio</u>
U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities of Government-Sponsored Corporations	80%
Authorized Local Government Investment Pools	100%
Fully Collateralized Certificates of Deposit	50%
Fully Collateralized Repurchase Agreements	10%
SEC-Regulated No-Load Money Market Mutual Funds	50%

D. Custodial Credit Risk

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

City of Aledo, Texas
Notes to Basic Financial Statements

3. Delinquent Property Taxes Receivable and Revenue

Delinquent taxes are prorated between General and the Water and Sewer Funds based on rates adopted for the year of the levy. The Parker County Appraisal District appraises, assesses and collects taxes on behalf of the City.

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period and those expected to be collected during a 60 day period after the close of the City's fiscal year.

4. Interfund Balances and Transfers

Inter-fund transfers are reported in the governmental funds and proprietary fund financial statements. In the government-wide statements, inter-fund transfers are eliminated within the governmental activities column and business-type activities column, as appropriate.

There were no Interfund receivables or payables at September 30, 2017.

Primary Government	Transfers To Funds	Transfers From Funds	Purpose
General Fund (Fund 100):			
Transfer from W/S fund		\$ 123,890	To cover administrative expenses
Transfer to W/S Debt Service fund	330,953		To transfer debt service portion of property taxes
Transfer from EDC		103,335	To cover administrative and community center expenses
EDC Fund (Fund 700):			
Transfer to General fund	103,335		To cover administrative and community center expenses
W/S Fund (Fund 200):			
Transfer from Capital Improvement fund		145,493	To reserve for future capital improvements
Transfer to General Fund	123,890		To cover administrative expenses
Transfer to W/S Debt Service Fund	690,970		To move portion of W/S revenues to cover debt payments
W/S Debt Service Fund (Fund 300):			
Transfer from General Fund		330,953	To transfer debt service portion of property taxes
Transfer from W/S fund		690,970	To move portion of W/S revenues to cover debt payments
Transfer to Capital Improvement fund	475,028		To reserve for future debt principal payments
Capital Improvement Fund (Fund 500):			
Transfer to W/S fund	145,493		To reserve for future capital improvements
Transfer from W/S Debt Service Fund		475,028	To reserve for future debt principal payments
	<u>\$ 1,869,669</u>	<u>\$ 1,869,669</u>	

City of Aledo, Texas
Notes to Basic Financial Statements

5. Capital Assets

Capital Asset Activities for the year ended September 30, 2017 was as follows:

	Balance September 30, 2016	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2017
Governmental activities				
Capital assets not being depreciated				
Land	\$ 194,625	\$ -	\$ -	\$ 194,625
Construction in progress	75,818	167,938	(70,268)	173,488
	<u>270,443</u>	<u>167,938</u>	<u>(70,268)</u>	<u>368,113</u>
Total capital assets not being depreciated	270,443	167,938	(70,268)	368,113
Capital assets being depreciated				
Buildings and improvements	352,088	45,983	-	398,071
Street infrastructure	6,585,782	261,091	-	6,846,873
Storm water drainage	1,308,477	-	-	1,308,477
Vehicles	185,317	38,433	-	223,750
Machinery and equipment	126,858	-	-	126,858
Other improvements	288,031	130,761	-	418,792
	<u>8,846,553</u>	<u>476,268</u>	<u>-</u>	<u>9,322,821</u>
Total capital assets being depreciated	8,846,553	476,268	-	9,322,821
Less accumulated depreciation				
Buildings and improvements	79,044	11,894	89,181	180,119
Street infrastructure	1,345,290	395,867	27,110	1,768,267
Storm water drainage	59,473	32,712	-	92,185
Vehicles	167,148	34,661	(88,104)	113,705
Machinery and equipment	148,056	4,189	(28,187)	124,058
Other improvements	145,920	32,640	-	178,560
	<u>1,944,931</u>	<u>511,963</u>	<u>-</u>	<u>2,456,894</u>
Total accumulated depreciation	1,944,931	511,963	-	2,456,894
Total capital assets being depreciated, net	<u>6,901,622</u>	<u>(35,695)</u>	<u>-</u>	<u>6,865,927</u>
Governmental activities capital assets, net	<u>\$ 7,172,065</u>	<u>\$ 132,243</u>	<u>\$ (70,268)</u>	<u>\$ 7,234,040</u>

City of Aledo, Texas
Notes to Basic Financial Statements

5. Capital Assets (continued)

Governmental activities depreciation expense was charged as a direct expense to the following programs:

Administration	\$ 104,202
City streets	395,867
Community center	11,894
Total depreciation expense - Governmental activities	<u>\$ 511,963</u>

	Balance September 30, 2016	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2017
Business-type activities				
Capital assets not being depreciated				
Land	\$ 334,604	\$ -	\$ -	\$ 334,604
Construction in progress	74,603		-	74,603
Total capital assets not being depreciated	409,207	-	-	409,207
Capital assets being depreciated				
Water system	11,868,784	-	-	11,868,784
Sewer system	14,709,451	672,172	-	15,381,623
Buildings	3,210	-	-	3,210
Vehicles	124,953	-	-	124,953
Machinery and equipment	232,810	7,995	-	240,805
Total capital assets being depreciated	26,939,208	680,167	-	27,619,375
Less accumulated depreciation				
Water system	2,646,197	317,527	-	2,963,724
Sewer system	2,877,136	379,552	-	3,256,688
Buildings	563	107	-	670
Vehicles	124,954	-	-	124,954
Machinery and equipment	199,382	24,549	-	223,931
Total accumulated depreciation	5,848,232	721,735	-	6,569,967
Total capital assets being depreciated, net	21,090,976	(41,568)	-	21,049,408
Business-type capital assets, net	<u>\$ 21,500,183</u>	<u>\$ (41,568)</u>	<u>\$ -</u>	<u>\$ 21,458,615</u>

Business-type activities depreciation expense was all charged to the City's water and sewer operations.

Water and sewer	<u>\$ 721,735</u>
Total depreciation expense - Business-type activities	<u>\$ 721,735</u>

City of Aledo, Texas
Notes to Basic Financial Statements

6. Business-Type Activities Restricted Cash and Investments

The Water and Sewer Fund maintains an interest and sinking account/certificate fund, which had a balance of \$142,451 at September 30, 2017. The property tax collections accumulated in this account are restricted to pay the water and sewer fund's bond requirements and are divided ratably between the bond issues.

The Certificates of Obligation require that certificate funds be established for the payment of debt service. The City is in compliance with the reserve requirements of these certificates of obligation as of September 30, 2017.

The Water and Sewer Fund maintains a customer deposit security account for the purposes of segregating liabilities payable to customers for security deposits. The account balance at September 30, 2017 amounted to \$152,035.

The Water and Sewer Fund has \$1,901,250 in restricted impact fees for the purpose of funding facility expansions and capital improvements. These restricted impact fees consist of \$1,760,823 in a TexSTAR investment account and \$140,427 in a bank account.

The Water and Sewer Fund has \$677,027 in refunding bond escrow from the issuance of general obligation refunding bonds, series 2017.

The Water and Sewer Fund also has \$971,025 in restricted cash and investment accounts that is to be used for the improvements and construction activities specified in the 2007, 2009, 2010, 2011 and 2012 Certificates of Obligation.

The following is a recap of the restricted cash and investments of the Water and Sewer Fund at September 30, 2017:

	As of September 30, 2017
Total cash and investments restricted for debt service	\$ 142,452
Customer security deposits	152,035
Water and wastewater impact fees	1,901,250
Refunding bond escrow	677,027
Future construction total restricted assets	971,025
	<u>\$ 3,843,789</u>

City of Aledo, Texas
Notes to Basic Financial Statements

7. Long-Term Debt

The following is a summary of changes in non-current liabilities for the year ended September 30, 2017:

	Beginning of Year	Increase	(Decrease)	End of Year	Due Within One Year
Governmental Activities					
Compensated absences	\$ 12,146	\$ 11,785	\$ (12,667)	\$ 11,264	\$ 11,264
Total governmental activities	<u>\$ 12,146</u>	<u>\$ 11,785</u>	<u>\$ (12,667)</u>	<u>\$ 11,264</u>	<u>\$ 11,264</u>
Business-type Activities					
Certificates of Obligation	\$ 13,105,000	\$ 9,125,000	\$ (9,485,000)	\$ 12,745,000	\$ 535,000
Bond Premium	-	747,636	-	747,636	-
Compensated Absences	11,809	12,383	(17,690)	6,502	6,502
Total business-type activities	<u>\$ 13,116,809</u>	<u>\$ 9,885,019</u>	<u>\$ (9,502,690)</u>	<u>\$ 13,499,138</u>	<u>\$ 541,502</u>

In August 2017, The City issued City of Aledo, Texas General Obligation Refunding Bonds, Series 2017 in the amount of \$9,125,000. The bond proceeds will be used to refund a portion of City's outstanding debt, in order to lower the overall debt service requirements of the City, and to pay the costs associated with the issuance of the bond. As part of the bond issuance, the City recorded bond premium of approximately \$747,636, which will be deferred and amortized as a reduction in interest expense over the life of the new bond. The refunding resulted in a difference of approximately \$677,000 between the net carrying amount of the old debt and the reacquisition price. This difference, reported in the accompanying financial statement as a deferred outflow of resources, is being amortized as an increase in interest expense over the life of the old bonds. Total debt service payments decreased by approximately \$860,000 as a result of the refunding. The City also incurred an economic gain (difference between the present value of the old debt and new debt service payments) of \$680,000. As of September 30, 2017, the unamortized bond premium was \$747,636.

The principal and interest on the bonds are payable from an annual ad valorem tax levied by the City. The annual requirements to amortize Water and Sewer Fund debt as of September 30, 2017 are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	-	-	-	535,000	443,856	978,856
2019	-	-	-	525,000	443,414	968,414
2020	-	-	-	555,000	430,381	985,381
2021	-	-	-	570,000	416,211	986,211
2022	-	-	-	570,000	401,475	971,475
2023-2027	-	-	-	3,090,000	1,734,628	4,824,628
2028-2032	-	-	-	2,140,000	1,218,921	3,358,921
2033-2037	-	-	-	2,200,000	807,010	3,007,010
2038-2042	-	-	-	2,560,000	313,262	2,873,262
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,745,000</u>	<u>\$ 6,209,158</u>	<u>\$ 18,954,158</u>

There are no Water and Sewer Fund capital lease obligations as of September 30, 2017.

City of Aledo, Texas
Notes to Basic Financial Statements

7. Long-Term Debt (Continue)

A summary of long-term debt as of September 30, 2017 is as follows:

Description	Original Amount	Interest Rate	Payment Terms	Final Year of Maturity	Outstanding Balance as of September 30, 2017	Governmental Activities	Business-type Activities
Certificates of Obligation							
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2009	\$ 675,000	3.5% - 3.7%	Bond payments due in semi- annual installments on February 15 and August 15	2019	\$ 30,000	\$ -	\$ 30,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2010A	\$ 2,110,000	3.1% - 4.65%	Bond payments due in semi- annual installments on February 15 and August 15	2038	\$ 1,445,000	\$ -	\$ 1,445,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2010B	\$ 360,000	3.49% - 4.14%	Bond payments due in semi- annual installments on February 15 and August 15	2020	\$ 30,000	\$ -	\$ 30,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2011A	\$ 3,345,000	3.00% - 3.8%	Bond payments due in semi- annual installments on February 15 and August 15	2021	\$ 290,000	\$ -	\$ 290,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2011B	\$ 1,700,000	3.4% - 4.34%	Bond payments due in semi- annual installments on February 15 and August 15	2041	\$ 150,000	\$ -	\$ 150,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2012	\$ 1,900,000	0.30% - 4.45%	Bond payments due in semi- annual installments on February 15 and August 15	2042	\$ 1,675,000	\$ -	\$ 1,675,000
General Obligation Refunding Bonds, Series 2017	\$ 9,125,000	2% - 4%	Bond payments due in semi- annual installments on February 15 and August 15	2037	\$ 9,125,000	\$ -	\$ 9,125,000
					<u>\$ 12,745,000</u>	<u>\$ -</u>	<u>\$ 12,745,000</u>

City of Aledo, Texas
Notes to Basic Financial Statements

8. Accumulated Unpaid Vacation and Sick Leave Benefits

The City's policy allows employees to accumulate up to 20 days of vacation and 30 days of sick leave. Sick leave is paid only upon illness while in the employment of the City.

Therefore, no accrual is reflected in the financial statements for sick pay. Vacation is earned in varying amounts. The City has accrued for the estimated liability for compensated absences in the governmental and business-type activities in the government-wide financial statements and in the proprietary fund financial statements. The City's aggregate liability for accrued vacation payable as of September 30, 2017 was \$17,766.

9. Employee Retirement System

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.tmr.com.

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

Benefits Provided

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

Plan provisions for the City were as follows:

	Plan Year 2017	Plan Year 2016
Deposit rate:	5%	5%
Matching ratio (City to Employee):	1.5 to 1	1.5 to 1
Years required for vesting	5 years	5 years
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity to increase (to retirees)	70% of CPI	70% of CPI

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 payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

City of Aledo, Texas
Notes to Basic Financial Statements

9. Employee Retirement System (continued)

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

	<u>2016</u>
Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>14</u>
	27

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.87% and 7.32% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$42,682 and were equal to the required contributions.

Net Pension Liability

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

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

City of Aledo, Texas
Notes to Basic Financial Statements

9. Employee Retirement System (continued)

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 Tables 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 male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% 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.

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 real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	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%	

City of Aledo, Texas
Notes to Basic Financial Statements

9. Employee Retirement System (continued)

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 period of projected benefit payments to determine the Total Pension Liability.

Changes in the net pension liability for the City are summarized in the following table:

	Changes in the Net Pension Liability		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	\$ 784,885	\$ 688,115	\$ 96,770
Changes for the year:			
Service cost	80,357	-	80,357
Interest	53,899	-	53,899
Change of benefit terms	-	-	-
Difference between expected and actual experience	2,827	-	2,827
Changes of assumptions	-	-	-
Contributions-employer	-	40,876	(40,876)
Contributions-employee	-	40,702	(40,702)
Net investment income	-	45,883	(45,883)
Benefit payments, including refunds of employee contributions	(53,121)	(53,121)	-
Administrative expense	-	(525)	525
Other changes	-	(28)	28
Net changes	\$ 83,962	\$ 73,787	\$ 10,175
Balance at 12/31/2016	\$ 868,847	\$ 761,902	\$ 106,945

The following table 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:

	Sensitivity of the Net Pension Liability to Changes in the Discount Rate		
	1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
Town's net pension liability	\$ 249,721	\$ 106,945	\$ (8,469)

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

City of Aledo, Texas
Notes to Basic Financial Statements

9. Employee Retirement System (continued)

For the fiscal year ended September 30, 2017, the City recognized pension expense of \$59,337 and the calculation of the expense is summarized in the following table:

Schedule of Pension Expense	
Total service cost	\$ 80,357
Interest on the total pension liability	53,899
Current period benefit changes	-
Employee contributions (reduction of expense)	(40,702)
Projected earnings on plan investments (reduction of expense)	(46,448)
Administrative expense	525
Other changes in fiduciary net position	28
Recognition of current year outflow (inflow) of resources - liabilities	563
Recognition of current year outflow (inflow) of resources - assets	113
Amortization of prior year outflows (inflows) of resources - liabilities	1,129
Amortization of prior year outflows (inflows) of resources - assets	9,873
Total pension expense	<u>\$ 59,337</u>

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

	Schedule of Deferred Outflows and Inflows of Resources			
	Deferred Outflows of Resources	Deferred Inflows of Resources	2016 Recognized in Current Pension Expense	Deferred (Inflow)/Outflow in future expense
Differences between expected and actual economic experience	\$ 2,827	\$ -	\$ 563	\$ 2,264
Changes in actuarial assumptions	-	-	-	-
Difference between projected and actual investment earnings	565	-	113	452
Contributions subsequent to the measurement date	32,283	-	-	32,283
Total	<u>\$ 35,675</u>	<u>\$ -</u>	<u>\$ 676</u>	<u>\$ 34,999</u>

\$32,283 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	Amount
2017	\$ 11,678
2018	11,677
2019	10,299
2020	1,356
2021	12
Thereafter	-
Total	<u>\$ 35,021</u>

City of Aledo, Texas
Notes to Basic Financial Statements

10. Contingencies

There are various lawsuits pending in which the City is involved. In the opinion of legal counsel and City management, the settlement of these lawsuits will not have a material adverse effect on the City's financial position.

12. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through March 27, 2018, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Aledo, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios

December 31,

	2014	2015	2016
Total pension liability			
Service cost	\$ 81,325	\$ 94,624	\$ 80,357
Interest	41,475	48,603	53,899
Change of benefit terms	-	-	-
Difference between expected and actual experience	(2,848)	(20,254)	2,827
Changes of assumptions	-	28,976	-
Benefit payments, including refunds of employee contributions	(21,389)	(28,157)	(53,121)
Net Change in Total Pension Liability	98,563	123,792	83,962
Total Pension Liability - Beginning	562,530	661,093	784,885
Total Pension Liability - Ending (a)	<u>\$ 661,093</u>	<u>\$ 784,885</u>	<u>\$ 868,847</u>
Plan Fiduciary Net Position			
Contributions-employer	\$ 25,860	\$ 47,067	\$ 40,876
Contributions-employee	45,597	49,028	40,702
Net investment income	30,860	915	45,883
Benefit payments, including refunds of employee contributions	(21,389)	(28,157)	(53,121)
Administrative expense	(322)	(557)	(525)
Other changes	(26)	(28)	(28)
Net Change in Plan Fiduciary Net Position	80,580	68,268	73,787
Plan Fiduciary Net Position - Beginning	539,267	619,847	688,115
Plan Fiduciary Net Position - Ending (b)	<u>\$ 619,847</u>	<u>\$ 688,115</u>	<u>\$ 761,902</u>
Net Pension Liability - Ending (a) - (b)	\$ 41,246	\$ 96,770	\$ 106,945
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	93.76%	87.67%	87.69%
Covered Employee Payroll	\$ 651,383	\$ 700,400	\$ 700,400
Net Pension Liability as a Percentage of Covered Employee Payroll	6.33%	13.82%	15.27%

City of Aledo, Texas
Required Supplementary Information
Schedule of Contributions

	September 30,		
	2015	2016	2017
Actuarially Determined Contribution	\$ 40,776	\$ 42,397	\$ 43,625
Contributions in relation to the actuarially determined contribution	41,784	40,462	42,682
Contribution deficiency (excess)	(1,008)	1,935	943
Covered employee payroll	671,608	611,336	571,773
Contributions as a percentage of covered employee payroll	6%	7%	7%

NOTES TO 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	27 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.

City of Aledo, Texas
 Budgetary Comparison Schedule - General Fund
 Year ended September 30, 2017

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 1,038,210	\$ 1,038,210	\$ 1,089,161	\$ 50,951
Sales taxes	400,100	468,067	473,785	5,718
Franchise fees	222,000	222,000	202,585	(19,415)
Building permits	367,655	398,480	436,323	37,843
Court fines and fees	12,950	12,950	8,624	(4,326)
Construction fees	110,855	60,355	96,677	36,322
Rental revenue	7,000	7,000	13,965	6,965
Event revenue	4,500	2,300	3,070	770
Credit card revenue	450	450	875	425
Interest income	1,000	1,000	18,930	17,930
Miscellaneous	10,810	10,370	12,006	1,636
Total revenues	2,175,530	2,221,182	2,356,001	134,819
Expenditures				
Current				
Administration	847,056	945,688	732,808	212,880
Public works	444,940	482,020	470,854	11,166
City streets	195,968	195,968	84,286	111,682
Municipal court	16,010	16,010	7,514	8,496
Park and recreation	270,940	270,940	81,605	189,335
Community center	138,490	139,015	64,968	74,047
Event expense	6,500	7,915	7,815	100
Credit card expense	500	500	865	(365)
Capital outlay	532,465	532,465	375,983	156,482
Total expenditures	2,452,869	2,590,521	1,826,698	(763,823)
Excess (deficiency) of revenues over expenditures	(277,339)	(369,339)	529,303	898,642
Other financing sources (uses):				
Transfers in	227,225	227,225	227,225	-
Transfers out	(329,630)	(329,630)	(330,953)	(1,323)
Total other financing sources (uses)	(102,405)	(102,405)	(103,728)	(1,323)
Net change in fund balances	(379,744)	(471,744)	425,575	897,319
Fund balance, beginning of year	2,595,360	2,595,360	2,595,360	-
Fund balance, end of year	\$ 2,215,616	\$ 2,123,616	\$ 3,020,935	\$ 897,319

City of Aledo, Texas
 Budgetary Comparison Schedule - Economic Development Corporation
 Year ended September 30, 2017

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Sales taxes	\$ 200,000	\$ 200,000	\$ 236,893	\$ 36,893
Event revenue	15,000	13,150	13,150	-
Interest income	200	200	2,201	2,001
Park Donation	-	2,520	23,395	20,875
Miscellaneous revenue	1,340	1,995	2,366	371
Total revenues	216,540	217,865	278,005	60,140
Expenditures				
Event expense	38,435	36,785	23,800	12,985
Administration	22,000	24,975	18,649	6,326
Capital outlay	100,000	100,000	30,017	69,983
Total expenditures	160,435	161,760	72,466	(89,294)
Excess (deficiency) of revenues over expenditures	56,105	56,105	205,539	149,434
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(103,335)	(103,335)	(103,335)	-
Total other financing sources (uses)	(103,335)	(103,335)	(103,335)	-
Net change in fund balances	(47,230)	(47,230)	102,204	149,434
Fund balance, beginning of year	408,193	408,193	408,193	-
Fund balance, end of year	<u>\$ 360,963</u>	<u>\$ 360,963</u>	<u>\$ 510,397</u>	<u>\$ 149,434</u>

City of Aledo, Texas
Notes to Required Supplementary Information

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the budgetary comparison schedules:

1. No later than the August Council meeting, the City Administrator submits to City Council a proposed operating budget for the General Fund, Economic Development Fund, Water and Sewer Debt Service Fund and Enterprise Fund. The City's operating budget, is consistent with U.S. generally accepted accounting principles (GAAP) for the General and Economic Development funds and includes expenditures and means of financing them. The Water and Sewer Debt Service fund is budgeted separately; however, it is included in the proprietary fund for presentation in the financial statements. The Water and Sewer Capital Projects fund is not budgeted. In addition, depreciation expense is not budgeted, however, it is recorded in the proprietary and business type financial statements.
2. A public hearing is conducted to obtain taxpayer comment.
3. The City Council approves, by ordinance, budget appropriations by September 30. Any revisions that alter the total appropriations of any fund must be approved by the City Council. Therefore, the level of budgetary responsibility is by fund.
4. Unused appropriations of the above annually budgeted funds lapse at the end of each fiscal year.
5. The City Council may authorize additional appropriations during the year. The City Council amended the budget during the year. Amendments to the budget were insignificant.

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Other Supplementary Information Section

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

To the City Council
City of Aledo, 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 the *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 remaining fund information of the City of Aledo, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Aledo's basic financial statements, and have issued our report thereon dated March 27, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is 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 purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Aledo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

M. C. & Associates, P.C.

Richardson, Texas
March 27, 2018

Budgetary Comparison Schedule

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City of Aledo, Texas
 Budgetary Comparison Schedule - Water and Sewer Debt Service Fund
 Year ended September 30, 2017

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Other revenue	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures				
Administration	640	640	-	(640)
Total expenditures	640	640	-	(640)
Nonoperating revenue (expenses)				
Interest income	300	300	2,488	2,188
Principal payments	(480,000)	(480,000)	-	480,000
Interest expense	(537,910)	(537,910)	(539,552)	(1,642)
Fiscal agent fees	(2,350)	(2,350)	(1,650)	700
Total nonoperating revenue (expenses)	(1,019,960)	(1,019,960)	(538,714)	481,246
Excess (deficiency) of revenues over expenditures	(1,020,600)	(1,020,600)	(538,714)	481,886
Other financing sources (uses)				
Transfers in	1,020,600	1,020,600	1,021,923	1,323
Transfers out	-	-	(475,028)	(475,028)
Total other financing sources (uses)	1,020,600	1,020,600	546,895	(473,705)
Net change in fund balances	-	-	8,181	8,181
Fund balance, beginning of year	373,173	373,173	373,173	-
Fund balance, end of year	\$ 373,173	\$ 373,173	\$ 381,354	\$ 8,181

City of Aledo, Texas
 Budgetary Comparison Schedule - Water and Sewer Fund
 Year ended September 30, 2017

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Charges for services	\$ 2,177,230	\$ 2,177,230	2,380,344	\$ 203,114
Credit card fees	4,000	4,000	10,110	6,110
Refuse revenue	160,000	214,000	234,454	20,454
Meter box fee	45,000	45,000	47,565	2,565
Other revenues	6,700	16,300	27,676	11,376
Total revenues	2,392,930	2,456,530	2,700,149	243,619
Expenditures				
Administration	397,950	397,950	332,871	65,079
Supplies and maintenance	1,444,810	1,474,600	561,230	913,370
Utilities	107,320	113,510	101,924	11,586
Professional services	123,160	150,660	87,035	63,625
Refuse expenses	160,000	214,000	233,588	(19,588)
Credit card expense	6,000	6,000	11,460	(5,460)
Other operating expenses	19,030	20,020	9,693	10,327
Depreciation	-	-	721,735	(721,735)
Total expenditures	2,258,270	2,376,740	2,059,536	317,204
Nonoperating revenue (expenses)				
Interest income	1,500	1,500	26,178	24,678
Impact fees	-	-	395,908	395,908
Interest and fiscal agent fees	-	-	14,233	14,233
Bond issue costs	-	-	(207,721)	(207,721)
Total nonoperating revenue (expenses)	1,500	1,500	228,598	227,098
Excess (deficiency) of revenues over expenditures	136,160	81,290	869,211	787,921
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(814,860)	(814,860)	(339,832)	475,028
Total other financing sources (uses)	(814,860)	(814,860)	(339,832)	475,028
Net change in fund balances	(678,700)	(733,570)	529,379	1,262,949
Fund balance, beginning of year	10,975,677	10,975,677	10,975,677	-
Fund balance, end of year	<u>\$ 10,296,977</u>	<u>\$ 10,242,107</u>	<u>\$ 11,505,056</u>	<u>\$ 1,262,949</u>