

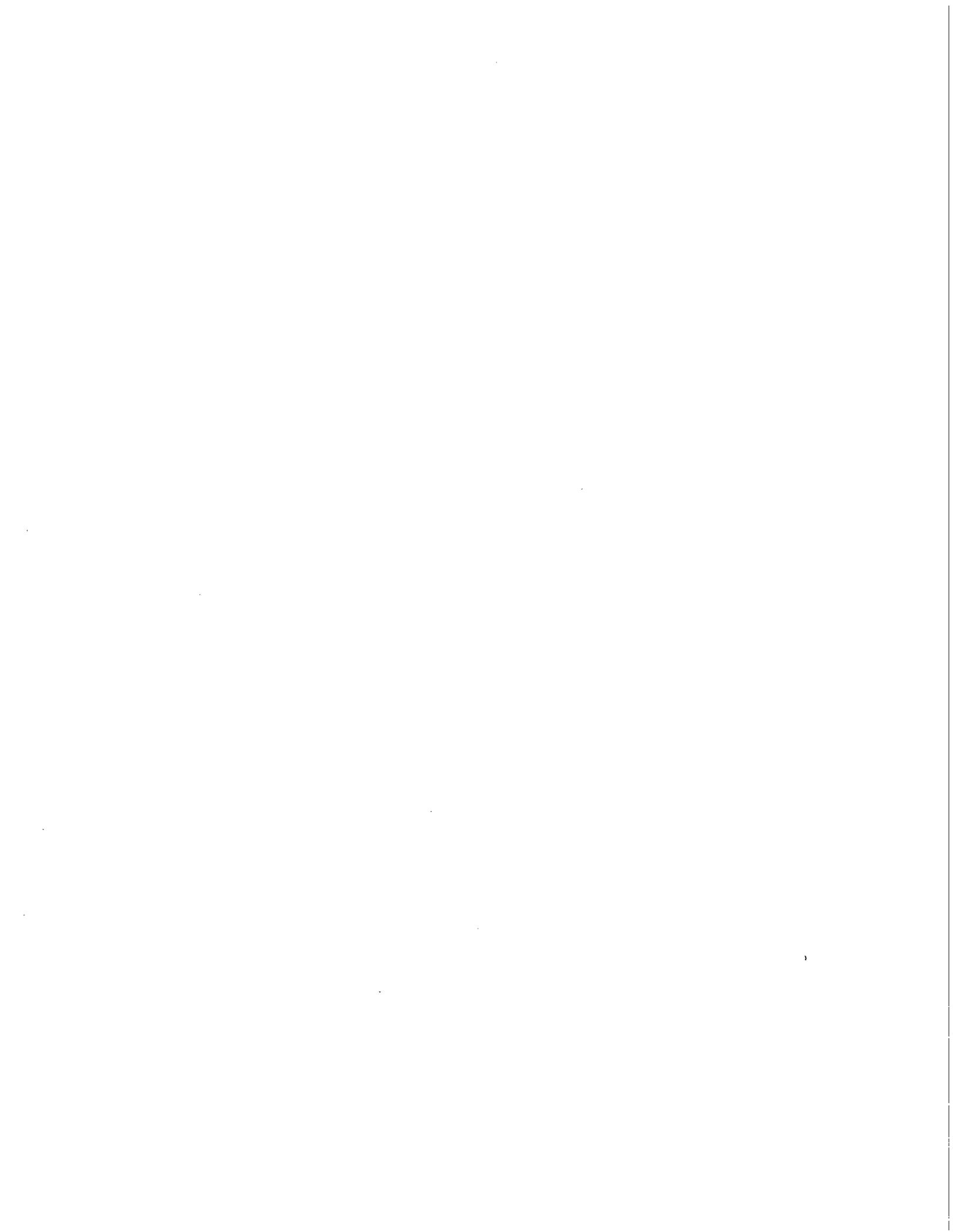
CITY OF SMITHVILLE, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2017



SINGLETON, CLARK  
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS



CITY OF SMITHVILLE, TEXAS  
 ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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CITY OF SMITHVILLE, TEXAS  
ANNUAL FINANCIAL REPORT  
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FINANCIAL SECTION

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SINGLETON, CLARK  
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Members of the City Council, and Citizens of the  
City of Smithville, Texas:

**Report on the Financial Statements**

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

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

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

**Auditor's Responsibility**

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 statements 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 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, each major fund, 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, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## **Other Matters**

### *Required Supplementary Information*

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

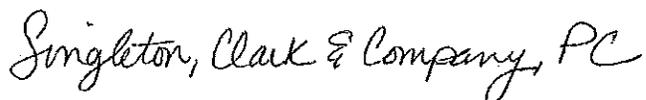
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Singleton, Clark & Company, PC  
Cedar Park, Texas

April 20, 2018

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CITY OF SMITHVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**Management's Discussion and Analysis**

As management of the City of Smithville, Texas, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017. Please read it in conjunction with the independent auditor's report on page 1 and the City's basic financial statements which follow this section.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$11,559,432 (*total net position*). Of this amount, \$2,082,433 represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors. For the year ended September 30, 2017, the City's total net position increased by \$1,365,601.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,390,684, a decrease of \$127,521 in comparison with the prior year. At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$800,994, or approximately 20% of the total General Fund expenditures before other financing sources/uses.
- At the close of the current fiscal year, the city's proprietary fund reported fund balance of \$5,327,584, a decrease of \$253,478 from the prior year.

**Overview of the Financial Statements**

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support 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 a private-sector business.

The *statement of net position* presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference 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 the City's net position changed during the most recent fiscal year. 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 for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

CITY OF SMITHVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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 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 general government; public safety; highways and streets; sanitation; culture and recreation; code enforcement and inspection; cemetery; airport; and economic development and assistance. The business-type activities of the City include electricity, water, and wastewater.

The government-wide financial statements can be found on pages 17-19 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 three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, 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 assessing a government'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 this comparison between *governmental funds* and *governmental activities*.

The City maintains eighteen individual governmental funds. 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 Recreation Center Expansion Grant. Data from the other sixteen governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City adopts an annual appropriated budget for its General Fund and Interest and Sinking Fund. A budgetary comparison statement has been provided for the General Fund on page 27 and for the Interest and Sinking Fund on page 77 to demonstrate compliance with each budget.

The basic governmental fund financial statements can be found on pages 22-25 of this report.

CITY OF SMITHVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**Proprietary Funds.** The City has the option of maintaining two different types of proprietary 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 utility operations - electricity, water, and wastewater. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among a City's functions. The City is not currently utilizing an internal service fund. Because the services provided by internal service funds predominantly benefit governmental rather than business-type functions, they are usually included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provides information for the Utility Fund, which is considered to be a major fund of the City. Conversely, when internal service funds are utilized, they are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are then provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The basic proprietary fund financial statements can be found on pages 28-31 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds *are* not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City maintains one fiduciary fund. The *HRA Fund* is used to report resources held for City employees which may be accessed for healthcare expenses.

The fiduciary fund financial statement can be found on page 33 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire 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 37-59 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's pension obligations. Required supplementary information can be found on pages 62-65 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions.

Combining and individual fund statements and schedules can be found on pages 68-75 of this report.

**Government-wide Overall Financial Analysis**

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$11,559,432 at the close of the most recent fiscal year.

CITY OF SMITHVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**City of Smithville, Texas's Net Position**

	Governmental		Change	Business-	Business-	Change
	Activities	Activities		Type	Type	
	2017	2016		2017	2016	
Current & other assets	\$ 1,958,691	\$ 1,791,562	\$ 167,129	\$ 2,071,949	\$ 2,694,135	\$ (622,186)
Capital assets	7,319,944	5,860,707	1,459,237	9,698,799	9,783,754	(84,955)
Deferred outflows	277,809	290,174	(12,365)	119,061	124,360	(5,299)
<b>Total Assets and Deferred Outflows</b>	<b>9,556,444</b>	<b>7,942,443</b>	<b>1,614,001</b>	<b>11,889,809</b>	<b>12,602,249</b>	<b>(712,440)</b>
Current liabilities	481,247	193,659	287,588	628,366	743,947	(115,581)
Long-term liabilities	2,816,379	3,056,947	(240,568)	5,922,301	6,243,355	(321,054)
Deferred inflows	26,970	79,068	(52,098)	11,558	33,885	(22,327)
<b>Total Liabilities and Deferred Inflows</b>	<b>3,324,596</b>	<b>3,329,674</b>	<b>(5,078)</b>	<b>6,562,225</b>	<b>7,021,187</b>	<b>(458,962)</b>
<b>Net Position</b>						
Net investment in capital assets	5,060,598	3,287,978	1,772,620	4,021,732	3,755,866	265,866
Restricted	394,669	389,770	4,899	-	-	-
Unrestricted	776,581	935,021	(158,440)	1,305,852	1,825,196	(519,344)
<b>Total Net Position</b>	<b>\$ 6,231,848</b>	<b>\$ 4,612,769</b>	<b>\$ 1,619,079</b>	<b>\$ 5,327,584</b>	<b>\$ 5,581,062</b>	<b>\$ (253,478)</b>

By far, the largest portion of the City's net position approximately 80% reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position approximately 3% represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,082,433 composed of \$776,581 governmental and \$1,305,852 business-type, is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's total net position did increase by \$1,365,601 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

CITY OF SMITHVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**Governmental Activities.** During the current fiscal year, net position for governmental activities increased by \$1,619,079 from the prior fiscal year for an ending balance of \$6,231,848.

**Business-type Activities.** During the current fiscal year, net position for business-type activities decreased by \$253,478 from the prior fiscal year for an ending balance of \$5,327,584.

**City of Smithville, Texas's Changes in Net Position**

	Governmental Activities 2017	Governmental Activities 2016	Change	Business- Type Activities 2017	Business- Type Activities 2016	Change
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 1,001,614	\$ 1,042,454	\$ (40,840)	\$ 6,279,200	\$ 6,414,016	\$ (134,816)
Operating grants & contributions	133,548	347,812	(214,264)	-	-	-
Capital grants and contributions	1,683,784	100,976	1,582,808	-	-	-
<b>General revenues:</b>						
Property taxes	1,264,911	1,176,933	87,978	-	-	-
Other taxes	757,271	678,859	78,412	-	-	-
Grants and contributions not restricted to specific programs	-	-	-	152,742	257,789	(105,047)
Other	275,361	325,741	(50,380)	139,235	75,496	63,739
<b>Total Revenue</b>	<b>5,116,489</b>	<b>3,672,775</b>	<b>1,443,714</b>	<b>6,571,177</b>	<b>6,747,301</b>	<b>(176,124)</b>
<b>Expenses:</b>						
General government	453,109	417,673	35,436	-	-	-
Public safety	1,388,027	1,293,778	94,249	-	-	-
Highways and streets	540,146	604,717	(64,571)	-	-	-
Sanitation	770,367	639,588	130,779	-	-	-
Culture and recreation	1,077,826	1,044,941	32,885	-	-	-
Code enforcement and inspections	97,735	73,001	24,734	-	-	-
Cemetery	55,056	64,944	(9,888)	-	-	-
Airport	65,913	123,809	(57,896)	-	-	-
Economic development and assist.	71,184	96,437	(25,253)	-	-	-
Interest on long-term debt	97,177	108,587	(11,410)	-	-	-
Utility Fund	-	-	-	5,705,525	5,446,818	258,707
<b>Total Expenses</b>	<b>4,616,540</b>	<b>4,467,475</b>	<b>149,065</b>	<b>5,705,525</b>	<b>5,446,818</b>	<b>258,707</b>
<b>Increase (Decrease) in Net Position</b>						
<b>Before Transfers</b>	<b>499,949</b>	<b>(794,700)</b>	<b>1,294,649</b>	<b>865,652</b>	<b>1,300,483</b>	<b>(434,831)</b>
Transfers	1,119,130	1,212,000	(92,870)	(1,119,130)	(1,212,000)	92,870
<b>Increase (Decrease) in Net Position</b>	<b>1,619,079</b>	<b>417,300</b>	<b>1,201,779</b>	<b>(253,478)</b>	<b>88,483</b>	<b>(341,961)</b>
Net Position - Beginning	4,612,769	4,195,469	417,300	5,581,062	5,492,579	88,483
<b>Net Position - Ending</b>	<b>\$ 6,231,848</b>	<b>\$ 4,612,769</b>	<b>\$ 1,619,079</b>	<b>\$ 5,327,584</b>	<b>\$ 5,581,062</b>	<b>\$ (253,478)</b>

CITY OF SMITHVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**Financial Analysis of Governmental Funds**

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

**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, unassigned fund balance may serve as a useful measure of a City's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At September 30, 2017, the City's governmental funds reported combined fund balances of \$1,390,684, a decrease of \$127,521 in comparison with the prior year. Approximately 60% of this amount, or \$800,994, constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of the fund balance is either *nonspendable, restricted, committed or assigned*.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$800,994. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 20% of total general fund expenditures, while total fund balance represents 23% of that same amount.

**Proprietary Fund.** The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Utility Fund at the end of the year was \$1,305,852. The change in net position for the Utility Fund was a decrease of \$253,478.

**General Fund Budgetary Highlights**

**Original budget compared to final budget.** During the year the City made several budget amendments, none were considered significant. Grants were amended by \$135,138. Sales tax and property tax revenue were amended by \$104,832 and \$28,276, respectively. The City also amended the following General Fund expenditure functional areas: General Government, Public Safety, Highway and Streets, Sanitation, Airport and Capital Outlay were increased by \$24,000, \$20,443, \$5,047, \$60,882, \$43,898 and \$78,742, respectively; while, Culture and Recreation, Cemetery and Economic Development and Assistance were decreased by \$35,587, \$18,850 and \$20,560, respectively. Overall, the General Fund's expenditures experienced a positive total variance of \$8,597.

CITY OF SMITHVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**Capital Assets and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of September 30, 2017, totals to \$7,319,944 and 9,698,799 respectively, net of accumulated depreciation. This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, and utility infrastructure. Overall, the City's capital assets increased from prior year for governmental activities by \$1,459,237 and decreased from the prior year for business-type activities year by \$84,955.

**City of Smithville, Texas's Capital Assets**

	Governmental	Governmental	Change
	Activities	Activities	
	2017	2016	
Land	\$ 664,891	\$ 664,891	\$ -
Construction in Progress	1,920,833	130,613	1,790,220
Buildings	4,196,546	4,196,546	-
Furniture and Equipment	2,132,897	2,083,805	49,092
Infrastructure	4,239,113	4,239,113	-
<b>Total</b>	<b>13,154,280</b>	<b>11,314,968</b>	<b>1,839,312</b>
Less Accumulated Depreciation	(5,834,336)	(5,454,261)	(380,075)
<b>Capital Assets, Net of Depreciation</b>	<b>\$ 7,319,944</b>	<b>\$ 5,860,707</b>	<b>\$ 1,459,237</b>
	Business-type	Business-type	Change
	Activities	Activities	
	2017	2016	
Land	\$ 174,319	\$ 173,319	\$ 1,000
Construction in Progress	-	2,557,708	(2,557,708)
Furniture and Equipment	1,169,610	1,136,472	33,138
Infrastructure	16,193,187	13,276,035	2,917,152
<b>Total</b>	<b>17,537,116</b>	<b>17,143,534</b>	<b>393,582</b>
Less Accumulated Depreciation	(7,838,317)	(7,359,780)	(478,537)
<b>Capital Assets, Net of Depreciation</b>	<b>\$ 9,698,799</b>	<b>\$ 9,783,754</b>	<b>\$ (84,955)</b>

Additional information on the City's capital assets can be found in Note IV.D on pages 48-49 of this report.

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CITY OF SMITHVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**Long-term Debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$5,220,000 (\$2,210,000 governmental activities and \$3,010,000 business-type activities). In addition, the City also reported total long-term liabilities for a capital lease, employee compensated absences and net pension liabilities.

**City of Smithville, Texas Outstanding Debt**

	Governmental Activities 2017	Governmental Activities 2016	Change
General Refunding Bonds	\$ 2,210,000	\$ 2,500,000	\$ (290,000)
Net Pension Liability	510,477	442,643	67,834
Compensated Absences	46,556	41,575	4,981
Capital Leases Payable	49,346	72,729	(23,383)
<b>Total</b>	<b>\$ 2,816,379</b>	<b>\$ 3,056,947</b>	<b>\$ (240,568)</b>

	Business-type Activities 2017	Business-type Activities 2016	Change
General Refunding Bonds	\$ 3,010,000	\$ 3,220,000	\$ (210,000)
Capital Leases Payable	2,667,067	2,807,888	(140,821)
Net Pension Liability	218,776	189,705	29,071
Compensated Absences	26,458	25,762	696
<b>Total</b>	<b>\$ 5,922,301</b>	<b>\$ 6,243,355</b>	<b>\$ (321,054)</b>

The City's total bond payable decreased by \$500,000 during the current fiscal year. The primary reason for the decrease was the repayment of bond principal of \$290,000 of the General Refunding Bonds under governmental activities and repayment of \$210,000 of bond principal of General Refunding Bonds under business-type activities.

Additional information on the City's long-term debt can be found in Note IV.H on pages 55-58 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The City considered many factors when setting the fiscal year 2018 budget. The City's General Fund budget for fiscal year 2018 includes expenditures of \$4,281,116 which is a slight increase from fiscal year 2017 total adopted expenditures. The city decreased the tax rate for 2017-2018 to \$0.416614 for the General Fund and to \$0.122406 for the Interest and Sinking Fund. The overall total tax rate decreased to \$0.539020 per \$100 valuation.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those interested in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's business office at the City of Smithville, Texas, 317 Main Street, Smithville, Texas 78957-0449, or by calling (512) 237-3282.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF SMITHVILLE, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 413,106	\$ 475,992	\$ 889,098
Investments - current	728,628	807,643	1,536,271
Taxes receivable - delinquent	124,579	-	124,579
Allowance for uncollectible taxes	(12,457)	-	(12,457)
Accounts receivable, net	173,376	761,248	934,624
Grants receivable	406,818	-	406,818
Due from other funds	108,977	-	108,977
Inventories	-	11,071	11,071
Prepaid items	15,664	15,995	31,659
Capital assets, not being depreciated:			
Land	664,891	174,319	839,210
Construction in progress	1,920,833	2,557,708	4,478,541
Capital assets, being depreciated:			
Buildings and improvements	4,196,546	-	4,196,546
Machinery, equipment, and vehicles	2,132,897	1,136,472	3,269,369
Infrastructure	4,239,113	13,668,617	17,907,730
Accumulated depreciation	(5,834,336)	(7,838,317)	(13,672,653)
Total Assets	<u>9,278,635</u>	<u>11,770,748</u>	<u>21,049,383</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension	277,809	119,061	396,870
Total Deferred Outflows of Resources	<u>277,809</u>	<u>119,061</u>	<u>396,870</u>
<b>LIABILITIES</b>			
Accounts payable	271,024	294,866	565,890
Accrued salaries and benefits	87,410	33,392	120,802
Accrued liabilities	-	14,917	14,917
Retainage payable	66,361	-	66,361
Due to other funds	-	108,900	108,900
Accrued interest payable	25,361	76,659	102,020
Unearned revenue	21,752	-	21,752
Other current liabilities	9,339	-	9,339
Customer deposits	-	99,632	99,632
Noncurrent liabilities:			
Due within one year	324,233	351,919	676,152
Net pension liability	510,477	218,776	729,253
Due in more than one year	1,981,669	5,351,606	7,333,275
Total Liabilities	<u>3,297,626</u>	<u>6,550,667</u>	<u>9,848,293</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pension	26,970	11,558	38,528
Total Deferred Inflows of Resources	<u>26,970</u>	<u>11,558</u>	<u>38,528</u>
<b>NET POSITION</b>			
Net investment in capital assets	5,060,598	4,021,732	9,082,330
Restricted for debt service	394,669	-	394,669
Unrestricted	776,581	1,305,852	2,082,433
Total Net Position	<u>\$ 6,231,848</u>	<u>\$ 5,327,584</u>	<u>\$ 11,559,432</u>

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

CITY OF SMITHVILLE, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 453,109	\$ 642	\$ -	\$ -
Public safety	1,388,027	110,957	30,398	54,763
Highways and streets	540,146	6,094	2,995	1,629,021
Sanitation	770,367	726,716	-	-
Culture and recreation	1,077,826	134,210	86,418	-
Code enforcement and inspections	97,735	-	-	-
Cemetery	55,056	10,055	-	-
Airport	65,913	12,940	13,737	-
Economic development and assistance	71,184	-	-	-
Interest	97,177	-	-	-
Total governmental activities:	4,616,540	1,001,614	133,548	1,683,784
Business-type activities:				
Utility Funds	5,705,525	6,279,200	-	152,742
Total business-type activities:	5,705,525	6,279,200	-	152,742
Total primary government	\$ 10,322,065	\$ 7,280,814	\$ 133,548	\$ 1,836,526

General revenues:

- Property taxes
- Sales taxes
- Hotel/motel taxes
- Franchise taxes
- Contributions and donations from private sources
- Interest rate subsidy
- Investment earnings
- Gain on sale of capital assets
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position -- beginning

Net position -- ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activites	Total
\$ (452,467)	\$ -	\$ (452,467)
(1,191,909)	-	(1,191,909)
1,097,964	-	1,097,964
(43,651)	-	(43,651)
(857,198)	-	(857,198)
(97,735)	-	(97,735)
(45,001)	-	(45,001)
(39,236)	-	(39,236)
(71,184)	-	(71,184)
(97,177)	-	(97,177)
<u>(1,797,594)</u>	<u>-</u>	<u>(1,797,594)</u>
-	726,417	726,417
-	726,417	726,417
<u>(1,797,594)</u>	<u>726,417</u>	<u>(1,071,177)</u>
1,264,911	-	1,264,911
650,262	-	650,262
18,763	-	18,763
88,246	-	88,246
49,802	-	49,802
-	78,806	78,806
10,522	13,535	24,057
7,534	1,685	9,219
207,503	45,209	252,712
1,119,130	(1,119,130)	-
<u>3,416,673</u>	<u>(979,895)</u>	<u>2,436,778</u>
1,619,079	(253,478)	1,365,601
4,612,769	5,581,062	10,193,831
<u>\$ 6,231,848</u>	<u>\$ 5,327,584</u>	<u>\$ 11,559,432</u>

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FUND BASIS FINANCIAL STATEMENTS

CITY OF SMITHVILLE, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

	General Fund	Recreation Center Expansion Grant	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 349,890	\$ 298	\$ 62,918	\$ 413,106
Investments - current	335,396	-	393,232	728,628
Taxes receivable - delinquent	89,255	-	35,324	124,579
Allowance for uncollectible delinquent taxes	(8,925)	-	(3,532)	(12,457)
Accounts receivable	173,376	-	-	173,376
Intergovernmental receivable	-	100,200	306,618	406,818
Due from other funds	309,441	-	-	309,441
Prepaid items	15,664	-	-	15,664
Total Assets	<u>\$ 1,264,097</u>	<u>\$ 100,498</u>	<u>\$ 794,560</u>	<u>\$ 2,159,155</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 129,802	\$ 50,253	\$ 90,969	\$ 271,024
Accrued salaries and benefits	86,636	-	774	87,410
Retainage payable	-	49,946	16,415	66,361
Due to other funds	-	299	200,165	200,464
Unearned revenue	2,290	-	19,462	21,752
Other current liabilities	9,339	-	-	9,339
Total Liabilities	<u>228,067</u>	<u>100,498</u>	<u>327,785</u>	<u>656,350</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources-property taxes	80,329	-	31,792	112,121
Total Deferred Inflows of Resources	<u>80,329</u>	<u>-</u>	<u>31,792</u>	<u>112,121</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Prepays	15,664	-	-	15,664
Restricted:				
Debt service	-	-	362,877	362,877
Committed:				
Specific purposes	-	-	41,751	41,751
Capital projects	-	-	30,355	30,355
Assigned:				
Grant matching	139,043	-	-	139,043
Unassigned	800,994	-	-	800,994
Total Fund Balances	<u>955,701</u>	<u>-</u>	<u>434,983</u>	<u>1,390,684</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 1,264,097</u>	<u>\$ 100,498</u>	<u>\$ 794,560</u>	<u>\$ 2,159,155</u>

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

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

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - governmental funds	\$ 1,390,684
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,319,944
The net pension asset is not an available resource and, therefore, is not reported in the funds.	(259,638)
Other long-term assets, such as uncollected property taxes, are not available to pay for and, therefore, are reported as unavailable revenue in the funds.	112,121
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(2,331,263)
Net position of governmental activities	<u>\$ 6,231,848</u>

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

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

	General Fund	Recreation Center Expansion Grant	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 967,434	\$ -	\$ 292,654	\$ 1,260,088
Sales taxes	650,262	-	-	650,262
Hotel/motel taxes	18,763	-	-	18,763
Franchise taxes	88,246	-	-	88,246
Licenses and permits	32,278	-	-	32,278
Grants	143,219	1,307,747	366,366	1,817,332
Charges for services	860,684	-	-	860,684
Fines	76,325	-	-	76,325
Investment earnings	7,207	287	3,028	10,522
Contributions and donations	48,370	-	1,432	49,802
Miscellaneous revenue	239,754	-	-	239,754
Total Revenues	3,132,542	1,308,034	663,480	5,104,056
<b>EXPENDITURES</b>				
Current:				
General government	389,703	-	14,694	404,397
Public safety	1,250,416	-	-	1,250,416
Highways and streets	489,591	-	-	489,591
Sanitation	697,814	-	-	697,814
Culture and recreation	934,141	-	38,308	972,449
Code enforcement and inspections	88,086	-	-	88,086
Cemetery	49,648	-	-	49,648
Airport	59,893	-	-	59,893
Economic development and assistance	64,262	-	-	64,262
Debt service:				
Bond principal	23,383	-	290,000	313,383
Interest	2,296	-	97,120	99,416
Capital outlay	78,742	1,307,747	482,473	1,868,962
Total Expenditures	4,127,975	1,307,747	922,595	6,358,317
Excess (Deficiency) or Revenues Over (Under) Expenditures	(995,433)	287	(259,115)	(1,254,261)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,110,299	-	257,199	1,367,498
Transfers out	(248,069)	(299)	-	(248,368)
Sale of general capital assets	7,534	-	-	7,534
Insurance recoveries	76	-	-	76
Total Other Financing Sources (Uses)	869,840	(299)	257,199	1,126,740
Net change in fund balance	(125,593)	(12)	(1,916)	(127,521)
Fund Balance - Beginning	1,081,294	12	436,899	1,518,205
Fund Balance - Ending	\$ 955,701	\$ -	\$ 434,983	\$ 1,390,684

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

CITY OF SMITHVILLE, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (127,521)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays were exceeded by depreciation expense in the current period.	1,459,237
The net effect of various miscellaneous transactions involving property taxes is to increase net position.	4,823
The net effect of various miscellaneous transactions involving the City's net pension liability is to decrease net position.	(28,101)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	310,641
Change in net position - governmental activities	\$ 1,619,079

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

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CITY OF SMITHVILLE, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL – GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 939,158	\$ 967,434	\$ 967,434	\$ -
Sales taxes	545,430	650,262	650,262	-
Hotel/motel taxes	22,000	18,763	18,763	-
Franchise taxes	73,880	78,648	88,246	9,598
Licenses and permits	28,225	31,554	32,278	724
Grants	12,000	147,138	143,219	(3,919)
Charges for services	906,240	884,410	860,684	(23,726)
Fines	80,700	79,455	76,325	(3,130)
Investment earnings	5,100	5,100	7,207	2,107
Contributions and donations	45,700	45,700	48,370	2,670
Miscellaneous revenue	204,370	218,088	239,754	21,666
Total Revenues	2,862,803	3,126,552	3,132,542	5,990
<b>EXPENDITURES</b>				
Current:				
General government	375,143	399,143	389,703	9,440
Public safety	1,245,834	1,266,277	1,250,416	15,861
Code enforcement and inspections	87,332	88,086	88,086	-
Highways and streets	483,989	489,036	489,591	(555)
Sanitation	636,932	697,814	697,814	-
Culture and recreation	953,390	917,803	934,141	(16,338)
Cemetery	68,498	49,648	49,648	-
Airport	15,995	59,893	59,893	-
Economic development and assistance	84,823	64,263	64,262	1
Debt service:				
Capital lease	23,383	23,383	23,383	-
Interest - capital lease	2,484	2,484	2,296	188
Capital outlay	-	78,742	78,742	-
Total Expenditures	3,977,803	4,136,572	4,127,975	8,597
Excess (Deficiency) or Revenues Over (Under) Expenditures	(1,115,000)	(1,010,020)	(995,433)	14,587
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,110,000	1,110,000	1,110,299	299
Transfers out	-	(161,095)	(248,069)	(86,974)
Sale of general capital assets	5,000	5,000	7,534	2,534
Insurance recoveries	-	-	76	76
Total Other Financing Sources (Uses)	1,115,000	953,905	869,840	(84,065)
Net change in fund balances	-	(56,115)	(125,593)	(69,478)
Fund Balance - Beginning	1,081,294	1,081,294	1,081,294	-
Fund Balance - Ending	\$ 1,081,294	\$ 1,025,179	\$ 955,701	\$ (69,478)

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

CITY OF SMITHVILLE, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2017

	Business-Type Activities
	Utility Fund
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 475,992
Investments - current	807,643
Accounts receivable, net	761,248
Inventories	11,071
Prepaid items	15,995
Total Current Assets	2,071,949
Noncurrent Assets:	
Land	174,319
Construction in progress	2,557,708
Infrastructure	13,668,617
Furnishings and equipment	1,136,472
Accumulated depreciation	(7,838,317)
Total Noncurrent Assets	9,698,799
Total Assets	11,770,748
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows - pension	119,061
Total Deferred Outflows of Resources	119,061
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	294,866
Salaries and benefits payable	33,392
Accrued liabilities	14,917
Due to other funds	108,900
Accrued interest payable	76,659
Bonds payable - current	351,919
Customer deposits	99,632
Total Current Liabilities	980,285
Noncurrent Liabilities:	
Bonds payable	2,795,000
Capital leases	2,530,148
Net pension liability	218,776
Compensated absences	26,458
Total Noncurrent Liabilities	5,570,382
Total Liabilities	6,550,667
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows - pension	11,558
Total Deferred Inflows of Resources	11,558
<b>NET POSITION</b>	
Net investment in capital assets	4,021,732
Unrestricted	1,305,852
Total Net Position	\$ 5,327,584

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

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

	Business-Type Activities
	Utility Fund
<b>OPERATING REVENUES</b>	
Charges for Services:	
Water sales	\$ 785,458
Sewerage service	694,730
Electricity sales	4,527,783
Other charges for services	271,229
Grants	152,742
Miscellaneous revenue	45,209
Total Operating Revenues	6,477,151
<b>OPERATING EXPENSES</b>	
Personnel services	1,043,800
Purchased professional and technical services	265,554
Other purchased services	2,441,429
Other operating expenses	1,220,136
Depreciation	490,994
Total Operating Expenses	5,461,913
Operating Income (Loss)	1,015,238
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest rate subsidy	78,806
Investment earnings	13,535
Gain on disposal of property	1,685
Interest expense	(243,612)
Total Nonoperating Revenues (Expenses)	(149,586)
Income before transfers in (out)	865,652
Transfers in	86,870
Transfers out	(1,206,000)
Change in Net Position	(253,478)
Net Position-Beginning	5,581,062
Net Position-Ending	\$ 5,327,584

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

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

	Business-Type Activities
	Utility Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 6,401,254
Receipt (return) of customer deposits	3,161
Other receipts	197,951
Payments to suppliers and service providers	(1,242,933)
Payments to employees for salaries and benefits	(1,044,027)
Payments to other funds for services provided	(2,749,650)
Net Cash Provided by (Used for) Operating Activities	1,565,756
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	86,870
Transfers to other funds	(1,206,000)
Change in net pension liability	6,744
Change in compensated absences	696
Net Cash Provided by (Used for) Capital and Financing Activities	(1,111,690)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(406,039)
Capital leases	(140,821)
Principal paid on capital debt	(210,000)
Interest paid on capital debt	(243,612)
Interest rate subsidy	78,806
Gain on Sale of capital assets	1,685
Net Cash Provided by (Used for) Capital and Related Financing Activities	(919,981)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of investments	224,449
Interest on investments	13,535
Net Cash Provided by Investing Activities	237,984
Net increase (decrease) in cash and cash equivalents	(227,931)
Cash and Cash Equivalents - Beginning	703,923
Cash and Cash Equivalents - Ending	\$ 475,992
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used for) Operating Activities:</b>	
Operating Income (Loss)	\$ 1,015,238
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	490,994
(Increase) decrease in accounts receivable	122,054
(Increase) decrease in due from other funds	5,215
(Increase) decrease in inventories	35,112
(Increase) decrease in prepaid items	12,724
(Decrease) increase in accounts payable	(69,958)
(Decrease) increase in accrued salaries & compensated absences	(227)
(Decrease) increase in accrued items	(675)
(Decrease) increase in due to other funds	(47,882)
(Decrease) increase in deposits payable	3,161
Total adjustments	550,518
Net Cash Provided by (Used for) Operating Activities	\$ 1,565,756

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

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CITY OF SMITHVILLE, TEXAS  
 STATEMENT OF NET POSITION  
 FIDUCIARY FUNDS  
 SEPTEMBER 30, 2017

	<u>Trust Fund</u>
	<u>HRA Fund</u>
<b>ASSETS</b>	
Investments	\$ 68,517
Total Assets	<u>68,517</u>
 <b>LIABILITIES</b>	
Due to other funds	77
Other liabilities	<u>68,440</u>
Total Liabilities	<u>\$ 68,517</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

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CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**I. Summary of significant accounting policies**

**A. Description of government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

**B. Reporting entity**

The City of Smithville, Texas (the "City") is a municipal corporation governed by an elected mayor and five-member governing Council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. For the year ended September 30, 2017, based on the definition of a component unit, the City did not have any component units, blended or discretely presented. Nor, is the City a component unit of any other entity.

**C. Basis of presentation – government-wide financial statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

**D. Basis of presentation – fund financial statements**

The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. Additionally, the City's Capital Replacement Fund is presented as part of the General Fund.

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**I. Summary of significant accounting policies (continued)**

The *Recreation Center Expansion Grant* is a special revenue fund which is used to account for a grant for construction and expansion of the City's Recreation Center.

The City reports the following major enterprise fund:

The *Utility Fund* accounts for the activities of the City's utilities-electric, water, and wastewater.

Additionally, the City reports the following fund types:

*Special revenue funds* account for resources restricted by the grantor or committed by the City to specific purposes. Most federal and state financial assistance is accounted for in special revenue funds, and occasionally unused balances must be returned to the grantor after project completion.

The *capital projects funds* account for the acquisition and construction of the City's major capital facilities, other than those financed by proprietary funds.

The *Interest and Sinking Fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The *HRA Fund* is a fiduciary fund and is used to account for resources held in trust for employees which may be accessed for healthcare expenses.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds or advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

**E. Measurement focus and basis of accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**I. Summary of significant accounting policies (continued)**

transactions or events for recognition in the financial statements. The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

**F. Budgetary information**

***1. Budgetary basis of accounting***

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Interest and Sinking Fund. The capital projects fund is appropriated on a project-length basis. Other special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by fund and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
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**I. Summary of significant accounting policies (continued)**

facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

**2. Excess of expenditures over appropriations**

For the year ended September 30, 2017, expenditures did not exceed appropriations in the City's General Fund or in the Interest and Sinking Fund.

**G. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**

**1. Cash and cash equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**2. Investments**

Investments for the City are reported at fair value (generally based on quoted market prices) except for positions in local government investment pools when applicable. In accordance with state law, these investment pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as 2a7-like pools and are reported at the net asset value per share, which approximates fair value, even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

**3. Inventories and prepaid items**

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and utility operations repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**4. Capital assets**

Capital assets (which include property, plant, equipment, and infrastructure assets e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year.

CITY OF SMITHVILLE, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

**I. Summary of significant accounting policies (continued)**

As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation. Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings	40
Machinery and equipment	5
Vehicles	5
Improvements	7-40
Infrastructure	15-40

**5. Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**6. Net position flow assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**7. Fund balance flow assumptions**

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**I. Summary of significant accounting policies (continued)**

the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**8. Fund balance policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The Council may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**H. Revenues and expenditures/expenses**

**1. Program revenues**

Amounts reported as *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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Property taxes**

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The City levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll of January 1, 2016, upon which the levy for the fiscal year 2016-2017 was based, was \$205,703,339. Taxes are delinquent if not paid by February 1st of the following calendar year. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**I. Summary of significant accounting policies (continued)**

The tax rates assessed for the year ended September 30, 2017, to finance General Fund and Interest and Sinking Fund operations were \$0.427560 and \$0.138427, respectively, for a total tax rate of \$0.565987 per \$100 valuation. The total tax levy for the General Fund and Interest and Sinking Fund for the fiscal year 2016-2017 was \$1,164,944. Tax collections, including collections of prior year delinquent balances, for the year ended September 30, 2017, were 100% of the year end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates for the year of the levy. Allowances for uncollectible taxes within the General Fund and Interest and Sinking Fund are based on historical experience in collecting taxes.

**3. *Compensated absences***

**Vacation**

The City's policy permits employees to accumulate up to 144 hours of earned but unused vacation benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

**Sick Leave**

Accumulated sick leave lapses when employees leave the employment of the City and, upon separation from service, no monetary obligation exists.

**4. *Pensions***

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

**5. *Proprietary funds operating and nonoperating revenues and expenses***

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

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**II. Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. Items shown in summary form on that reconciliation are provided in detail below.

One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this amount are as follows:

**Detail of Capital Asset Reconciling Items:**

Capital assets not being depreciated:	
Land	\$ 664,891
Construction in progress	1,920,833
Capital assets, being depreciated	
Buildings and improvements	4,196,546
Machinery, equipment, and vehicles	2,132,897
Infrastructure	4,239,113
Accumulated depreciation	(5,834,336)
<hr/>	
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ 7,319,944</u>

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this amount are as follows:

**Detail of Long-Term Debt Reconciling Items:**

Bonds payable	\$ 2,210,000
Capital leases	49,346
Compensated absences	46,556
Accrued interest payable	25,361
<hr/>	
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ 2,331,263</u>

CITY OF SMITHVILLE, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

**II. Reconciliation of government-wide and fund financial statements (continued)**

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. Items shown in summary form on that reconciliation are provided in detail below.

One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.” The details of this amount are as follows:

**Detail of Capital Outlay and Depreciation Expense Items:**

Capital outlay	\$ 1,868,961
Depreciation expense	(409,724)
	\$ 1,459,237
Net adjustment to increase <i>net changes in fund balance - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ 1,459,237

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this amount are as follows:

**Detail of Long-Term Debt Revenue/Expense Items:**

Debt issued or incurred:	
Interest accrual	\$ 2,239
Change in compensated absences	(4,981)
Principal repayments:	
General obligation debt	290,000
Capital lease financing	23,383
	\$ 310,641
Net adjustment to decrease <i>changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ 310,641

CITY OF SMITHVILLE, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

**III. Stewardship, compliance and accountability**

**A. Violations of legal or contractual provisions**

No violations of legal or contractual provisions were noted during the current year.

**B. Deficit fund equity**

For the year ended September 30, 2017 there were no funds reported with deficit fund equity.

**IV. Detailed notes on all activities and funds**

**A. Cash deposits with financial institutions**

*Custodial credit risk-deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2017, the City's bank balance was \$974,590 and none of that amount was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging or financial institution's trust department or agent, but not in the City's name.

**B. Investments**

The Lone Star Investment Pool (the "Pool") operates in accordance with state law, which requires it to meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. See note I.G.2, *Investments*, for a discussion of how the shares in the Pool are valued. The Pool has a credit rating of AAA from Standard & Poor's Financial Services. Local government investment pools in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. The Pool invests in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state. The City utilizes a pooled investment concept for all its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

As of September 30, 2017, the City had the following investments:

Investment Type	Maturity Time in Years			
	Less than			More
	1	1-5	6-10	Than 10
Lone Star Investment Pool	731,217	\$ -	\$ -	\$ -
Certificates of Deposit	805,054	-	-	-
<b>Total Investments</b>	<b>\$ 1,536,271</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

*Interest rate risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten months.

CITY OF SMITHVILLE, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

**IV. Detailed notes on all activities and funds (continued)**

*Credit risk.* State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's policy to limit its investments in these investment types to the top rating issued by NRSROs.

*Concentration of credit risk.* The City's investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the City's total investments. This restriction however does not apply to government investment pools due to the low risk nature of this type of investment.

*Custodial credit risk-investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**C. Receivables**

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for the general fund and the utility fund. Below is a detail of receivables for the major funds of both the governmental and proprietary funds of the City, including the applicable allowance for uncollectible accounts:

Governmental Funds

Receivables	General Fund
Sales and mixed beverage taxes	102,627
Property liens	79,344
Grants	22,868
Gross receivables	204,839
Less: Allowance for uncollectibles	(31,463)
Net Receivables	\$ 173,376

Proprietary Funds

Receivables	Utility Fund
Utility billing	1,380,676
Gross receivables	1,380,676
Less: Allowance for uncollectibles	(619,428)
Net Receivables	\$ 761,248

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**IV. Detailed notes on all activities and funds (continued)**

**D. Capital assets**

Capital assets activity for the City's governmental activities for the year ended September 30, 2017, was as follows:

**Governmental Activities:**

	Balance 10/1/16	Increases	Decreases	Adjustments	Balance 9/30/17
Capital assets, Not Being Depreciated:					
Land	\$ 664,891	\$ -	\$ -	\$ -	\$ 664,891
Construction in progress	130,613	1,790,220	-	-	1,920,833
Total Capital Assets, Not Being Depreciated	<u>795,504</u>	<u>1,790,220</u>	<u>-</u>	<u>-</u>	<u>2,585,724</u>
Capital Assets, Being Depreciated:					
Buildings and improvements	4,196,546	-	-	-	4,196,546
Machinery, equipment, and vehicles	2,083,805	78,741	(29,649)	-	2,132,897
Infrastructure	4,239,113	-	-	-	4,239,113
Total Capital Assets, Being Depreciated	<u>10,519,464</u>	<u>78,741</u>	<u>(29,649)</u>	<u>-</u>	<u>10,568,556</u>
Less Accumulated Depreciation For:					
Buildings and improvements	(2,855,215)	(151,001)	-	-	(3,006,216)
Machinery, equipment, and vehicles	(1,915,616)	(185,953)	29,649	-	(2,071,920)
Infrastructure	(683,430)	(72,770)	-	-	(756,200)
Total Accumulated Depreciation	<u>(5,454,261)</u>	<u>(409,724)</u>	<u>29,649</u>	<u>-</u>	<u>(5,834,336)</u>
Total Capital Assets Being Depreciated, Net	<u>5,065,203</u>	<u>(330,983)</u>	<u>-</u>	<u>-</u>	<u>4,734,220</u>
Governmental Activities Capital Assets, Net	<u>\$5,860,707</u>	<u>\$1,459,237</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$7,319,944</u>

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

**Governmental Activities:**

General government	\$ 40,645
Public safety	125,676
Highways and streets	49,208
Sanitation	70,135
Culture and recreation	97,738
Code enforcement and inspections	8,853
Cemetery	4,990
Airport	6,020
Economic Development & Assistance	6,459
Total Depreciation Expense - Governmental Activities	<u>\$ 409,724</u>

CITY OF SMITHVILLE, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
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**IV. Detailed notes on all activities and funds (continued)**

Capital assets activity for the City's business-type activities for the year ended September 30, 2017, was as follows:

**Business-Type Activities:**

	Balance 10/1/16	Increases	Decreases	Adjustments	Balance 9/30/17
<b>Capital assets, Not Being Depreciated:</b>					
Land	\$ 173,319	\$ -	\$ -	\$ 1,000	\$ 174,319
Construction in progress	2,557,708	-	-	(2,557,708)	-
Total Capital Assets, Not Being Depreciated	2,731,027	-	-	(2,556,708)	174,319
<b>Capital Assets, Being Depreciated:</b>					
Machinery, equipment, and vehicles	1,136,472	89,784	(56,646)	-	1,169,610
Infrastructure	13,276,035	359,444	-	2,557,708	16,193,187
Total Capital Assets, Being Depreciated	14,412,507	449,228	(56,646)	2,557,708	17,362,797
<b>Less Accumulated Depreciation For:</b>					
Machinery, equipment, and vehicles	(816,588)	(88,008)	12,457	-	(892,139)
Infrastructure	(6,543,192)	(402,986)	-	-	(6,946,178)
Total Accumulated Depreciation	(7,359,780)	(490,994)	12,457	-	(7,838,317)
Total Capital Assets Being Depreciated, Net	7,052,727	(41,766)	(44,189)	2,557,708	9,524,480
Business-type Activities Capital Assets, Net	\$9,783,754	\$ (41,766)	\$ (44,189)	\$ 1,000	\$9,698,799

**E. Defined benefit pension plans**

*Plan Description*

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

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

CITY OF SMITHVILLE, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

**IV. Detailed notes on all activities and funds (continued)**

*Benefits Provided*

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

*Employees covered by benefit terms*

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

Inactive employees or beneficiaries currently receiving benefits	30
Inactive employees entitled to but not yet receiving benefits	54
Active employees	62
	146
	146

*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 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Smithville were 6.18% and 6.74% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$147,681, and were equal to the required contributions.

*Net Pension Liability*

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

*Actuarial Assumptions*

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

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**IV. Detailed notes on all activities and funds (continued)**

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by a factor of 95%. 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 Table 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 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. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**IV. Detailed notes on all activities and funds (continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
	<u>100%</u>	

*Discount Rate*

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 5,131,855	\$ 4,499,507	\$ 632,348
Changes for the year:			
Service cost	214,184	-	214,184
Interest	347,256	-	347,256
Change of benefit terms	-	-	-
Difference between expected and actual experience	73,787	-	73,787
Changes of assumptions	-	-	-
Contributions - employer	-	129,248	(129,248)
Contributions - employee	-	108,613	(108,613)
Net investment income	-	304,080	(304,080)
Benefit payments, including refunds of employee contr.	(188,818)	(188,818)	-
Administrative expense	-	(3,434)	3,434
Other changes	-	(185)	185
Net changes	446,409	349,504	96,905
Balance at 12/31/2016	\$ 5,578,264	\$ 4,849,011	\$ 729,253

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**IV. Detailed notes on all activities and funds (continued)**

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

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

	1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
City's net pension liability	\$ 1,553,379	\$ 729,253	\$ 59,101

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

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

For the year ended September 30, 2017, the city recognized pension expense of \$40,144.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 61,871	\$ 38,238
Difference in assumptions	16,666	-
Net difference between projected and actual investment earnings	205,095	290
Contributions subsequent to the measurement date	113,238	-
Total	\$ 396,870	\$ 38,528

\$113,238 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended Dec 31,	Net deferred outflows (inflows) of resources
2017	\$ 75,089
2018	101,297
2019	68,789
2020	(71)
2021	-
Total	245,104

CITY OF SMITHVILLE, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

**IV. Detailed notes on all activities and funds (continued)**

Supplemental Death Benefit Fund

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

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

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

The City's contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$5,171, \$4,984 and \$4,864 respectively, which equaled the required contributions each year.

**F. 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; and natural disasters. During the year, the City purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and no settlements exceeding insurance coverage for each of the past three fiscal years.

**G. Lease obligations**

**Capital lease**

The City has a capital lease to finance the acquisition of three vehicles for the police department. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2017, were as follows:

Year Ending September 30	Governmental Activities
2018	\$ 25,679
2019	25,678
Total Minimum Lease Payments	51,357
Less: Amount Representing Interest	(2,011)
Present Value of Minimum Lease Payments	\$ 49,346

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**IV. Detailed notes on all activities and funds (continued)**

The City has three capital leases for acquisition of equipment for business-type activities. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2017, were as follows:

Year Ending September 30	<u>Business - type Activities</u>			Total
	Digger	Jet Machine	QEGB	
2018	\$ 37,426	\$ 11,692	\$ 250,352	\$ 299,470
2019	37,426	11,692	247,881	296,999
2020	37,426	11,694	245,482	294,602
2021	-	-	216,398	216,398
2022	-	-	241,274	241,274
2023-2027	-	-	1,165,197	1,165,197
2028-2031	-	-	873,393	873,393
Total Minimum Lease Payments	112,278	35,078	3,239,977	3,387,333
Less: Amount Representing Interest	(7,826)	(2,611)	(709,829)	(720,266)
Present Value of Minimum Lease Payments	<u>\$ 104,452</u>	<u>\$ 32,467</u>	<u>\$ 2,530,148</u>	<u>\$ 2,667,067</u>

The city's capital lease for purchase of smart meters through Qualified Energy Conservation Bond (QEGB) earned the city an interest rate subsidy of \$78,806 during the year.

**H. Long-term liabilities**

General Obligation Bonds

The City issues general obligation bonds and certificates of obligation to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and certificates of obligation have been issued for both governmental and business-type activities. These long-term debt instruments are direct obligations and pledge the full faith and credit of the government. General obligation bonds and certificates of obligation generally are issued with repayment scheduled to occur as equal amounts of principal maturing each year with maturities that range from 5 to 20 years.

Details of long-term debt obligations outstanding at September 30, 2017 are as follows:

**Governmental Activities:**

Type	Sale Date	Original Borrowing	Interest		Outstanding 9/30/17
			Rates to Maturity	Final Maturity	
<b>Bonds Payable</b>					
General Refunding Bonds, Series 2009	2009	\$ 2,210,000	2.50-4.75%	2024	\$ 1,420,000
General Refunding Bonds, Series 2005	2005	2,555,000	3.90%	2021	790,000
Total Bonds Payable					<u>\$ 2,210,000</u>
<b>Capital Leases Payable</b>					
Capital Lease	2015	\$ 117,750	3.70%	2019	\$ 49,346
Total Capital Leases Payable					<u>\$ 49,346</u>

CITY OF SMITHVILLE, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

**IV. Detailed notes on all activities and funds (continued)**

**Business-type Activities:**

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/17
<b>Bonds Payable</b>					
General Refunding Bonds, Series 2007	2007	\$ 4,500,000	4.20%	2028	\$ 3,010,000
Total General Obligation Bonds					<u>\$ 3,010,000</u>
<b>Capital Leases Payable</b>					
Capital Lease Digger Truck	2016	\$ 174,240	3.70%	2019	\$ 104,452
Capital Lease Jet Machine	2016	52,000	4.70%	2020	32,467
Capital Lease QECB	2016	2,661,148	3.68%	2031	2,530,148
Total Capital Leases Payable					<u>\$ 2,667,067</u>

Changes in long-term liabilities

Changes in the City's long-term liabilities for the year ended September 30, 2017 are as follows:

**Governmental Activities:**

Description	Balance 10/1/16	Additions	Deletions	Balance 9/30/17	Due in One Year
<b>Bonds Payable</b>					
General refunding bonds	\$2,500,000	\$ -	\$ (290,000)	\$ 2,210,000	\$ 300,000
Total Bonds Payable	<u>2,500,000</u>	<u>-</u>	<u>(290,000)</u>	<u>2,210,000</u>	<u>300,000</u>
<b>Capital Leases Payable</b>					
Capital lease	72,729	-	(23,383)	49,346	24,233
Total Capital Leases Payable	<u>72,729</u>	<u>-</u>	<u>(23,383)</u>	<u>49,346</u>	<u>24,233</u>
<b>Other Long-term Liabilities</b>					
Net pension liability	442,643	67,834	-	510,477	-
Compensated absences	41,575	4,981	-	46,556	-
Total Other Long-term Liabilities Payable	<u>484,218</u>	<u>72,815</u>	<u>-</u>	<u>557,033</u>	<u>-</u>
Governmental Activities Long-term Liabilities	<u>\$3,056,947</u>	<u>\$ 72,815</u>	<u>\$ (313,383)</u>	<u>\$ 2,816,379</u>	<u>\$ 324,233</u>

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**IV. Detailed notes on all activities and funds (continued)**

**Business-type Activities:**

Description	Balance 10/1/16	Additions	Deletions	Balance 9/30/17	Due in One Year
<b>Bonds Payable</b>					
General refunding bonds	\$3,220,000	\$ -	\$ (210,000)	\$ 3,010,000	\$ 215,000
Total Bonds Payable	3,220,000	-	(210,000)	3,010,000	215,000
<b>Capital Leases Payable</b>					
Capital lease equipment	104,452	-	-	104,452	34,802
Capital lease equipment	42,288	-	(9,821)	32,467	10,306
Capital lease QECCB	2,661,148	-	(131,000)	2,530,148	91,652
Total Capital Leases Payable	2,807,888	-	(140,821)	2,667,067	136,760
<b>Other Long-term Liabilities</b>					
Net pension liability	189,705	29,071	-	218,776	-
Compensated absences	25,762	696	-	26,458	-
Total Other Long-term Liabilities Payable	215,467	29,767	-	245,234	-
<b>Business-type Activities Long-term Liabilities</b>	<b>\$6,243,355</b>	<b>\$ 29,767</b>	<b>\$ (350,821)</b>	<b>\$ 5,922,301</b>	<b>\$ 351,760</b>

The debt service requirements for the City's bonds are as follows:

**Governmental Activities**

Year Ended September 30,	Governmental Activities	
	Bonds Payable	
	Principal	Interest
2018	\$ 300,000	\$ 86,065
2019	315,000	74,243
2020	335,000	61,440
2021	345,000	48,045
2022	290,000	35,088
2023-2024	625,000	29,663
Totals	\$ 2,210,000	\$ 334,544

CITY OF SMITHVILLE, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

**IV. Detailed notes on all activities and funds (continued)**

Business-type Activities

Year Ended September 30,	Business-Type Activities	
	Bonds Payable	
	Principal	Interest
2018	\$ 215,000	\$ 121,905
2019	225,000	112,665
2020	235,000	103,005
2021	250,000	92,820
2022	260,000	82,110
2023-2027	1,485,000	232,995
2028	340,000	7,140
Totals	\$ 3,010,000	\$ 752,640

**I. Interfund receivables and payables**

The composition of interfund balances as of September 30, 2017 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund	\$ 200,165
General Fund	Utility Fund	108,900
General Fund	Recreation Center Expansion Grant	299
General Fund	Trust Fund	77
Total		\$ 309,441

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. These amounts also include balances of working capital loans made to several nonmajor governmental funds which the general fund expects to collect in the subsequent year.

**J. Interfund transfers**

The composition of interfund transfers for the year ended September 30, 2017 was as follows:

	Transfer in to:			Total
	Governmental Funds		Enterprise Funds	
	General Fund	Nonmajor Gov. Funds	Utility Fund	
<b>Transfer out from:</b>				
General Fund	\$ -	\$ 159,920	\$ 86,870	\$ 246,790
Utility Fund	1,110,000	96,000	-	1,206,000
Recreation Center Expansion Grant	299	-	-	299
Total	\$ 1,110,299	\$ 255,920	\$ 86,870	\$ 1,453,089

CITY OF SMITHVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**IV. Detailed notes on all activities and funds (continued)**

During the year, recurring transfers are used to 1) move revenues from a fund with collection authority to another fund with related expenditure requirements, 2) move general fund resources to provide subsidies to other funds as needs arise, and 3) move resources from the utility fund to the general fund to subsidize governmental activities.

**K. Contingencies**

The City was not involved in any litigation at year-end that the City's attorney feels would result in a negative outcome or present any material liability to the City.

**L. Subsequent events**

The City has evaluated subsequent events through April 20, 2018, the date of the audit report. The City is not aware of any subsequent events that materially affect the financial statements and would require recording/disclosure.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SMITHVILLE, TEXAS  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Measurement Year</u>		
	2014	2015	2016
<b>A. Total Pension Liability</b>			
1. Service cost	\$ 171,454	\$ 197,338	\$ 214,184
2. Interest (on the Total Pension Liability)	326,676	331,919	347,256
3. Changes of benefit terms	-	-	-
4. Difference between expected and actual experience	(262,383)	24,762	73,787
5. Changes of assumptions	-	40,818	-
6. Benefit payments, including refunds of employee contributions	(135,516)	(212,038)	(188,818)
7. Net Change in Total Pension Liability	100,231	382,799	446,409
8. Total Pension Liability - Beginning	4,648,825	4,749,056	5,131,855
9. Total Pension Liability - Ending	<u>\$ 4,749,056</u>	<u>\$ 5,131,855</u>	<u>\$ 5,578,264</u>
<b>B. Plan Fiduciary Net Position</b>			
1. Contributions - employer	\$ 29,724	\$ 142,066	\$ 129,248
2. Contributions - employee	99,355	105,079	108,613
3. Net investment income	241,945	6,584	304,080
4. Benefit payments, including refunds of employee contributions	(135,516)	(212,038)	(188,818)
5. Administrative expense	(2,526)	(4,010)	(3,434)
6. Other	(208)	(198)	(185)
7. Net Change in Plan Fiduciary Net Position	232,774	37,483	349,504
8. Plan Fiduciary Net Position - Beginning	4,229,250	4,462,024	4,499,507
9. Plan Fiduciary Net Position - Ending	<u>\$ 4,462,024</u>	<u>\$ 4,499,507</u>	<u>\$ 4,849,011</u>
<b>C. Net Pension Liability [A.9 - B.9]</b>	<u>\$ 287,032</u>	<u>\$ 632,348</u>	<u>\$ 729,253</u>
<b>D. Plan Fiduciary Net Position as a % of the Total Pension Liability [B.9 / A.9]</b>	93.96%	87.68%	86.93%
<b>E. Covered-Employee Payroll</b>	\$ 1,987,091	\$ 2,101,573	\$ 2,172,253
<b>F. Net Position as a Percentage of Covered Employee Payroll [C / E]</b>	14.44%	30.09%	33.57%

CITY OF SMITHVILLE, TEXAS  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Fiscal Year</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially Determined Contribution	\$ 138,556	\$ 132,289	\$ 147,681
Contributions in relation to the actuarially determined contribution	<u>(138,556)</u>	<u>(132,289)</u>	<u>(147,681)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,049,642	\$ 2,140,771	\$ 2,321,089
Contributions as a percentage of covered employee payroll	6.8%	6.2%	6.4%

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CITY OF SMITHVILLE, TEXAS  
NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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

**Other Information:**

Notes There were no benefit changes during the year.

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## **Nonmajor Governmental Funds**

### **Special Revenue Funds**

Special revenue funds are used to account for specific revenue sources that are restricted, committed, or assigned to expenditures for particular purposes.

The *Railroad Park Fund* is used to account for park operations and activities.

The *Police Seized Asset Fund* is used to account for all the assets seized by the police department.

The *Skate Park Fund* was used to account for construction of the City's skate park. It currently has residual funds related to the park's construction.

The *2009 TXCDBG Project Fund* was used to account for the administration of the City's Community Development Block Grant. It currently has immaterial residual funds related to the grant.

The *HOMES Project Fund* is used to account for the City's HOMES grant.

The *Hazard Mitigation Grant Projects Fund* is used to account for the City's HMGP grant.

The *Cops Hiring Grant Fund* is used to account for the City's Cops Hiring grant.

The *Grant and Donation Fund* is used to account for the donations received by the city for a particular purpose.

The *Veterans Memorial Park Fund* is used to account for park operations and activities.

The *Smithville Cares Fund* is used to account for operations and activities of the City's Smithville Cares program.

The *PEG Capital Fee Fund* is used to account for specific City fees and franchise taxes.

The *Airport Fly-In Fund* is used to account for certain airport related activities.

The *Independence Park Fund* is used to account for park operations and activities.

### **Debt Service Fund**

The *Interest & Sinking Fund*, also referred to as the debt service fund, is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of the City's governmental funds.

### **Capital Projects Funds**

The *Bonds Projects Fund* is used to account for the acquisition and construction of the City's major capital facilities and projects financed through debt issuance, other than those financed by proprietary funds.

The *TAP Loop 230 Sidewalk* is used to account for the construction and expansion of the Loop 230 sidewalks.

CITY OF SMITHVILLE, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<b>Special Revenue Funds</b>			
	Railroad Park	Police Seized Asset Fund	Skate Park	2009 TXCDBG Project
<b>ASSETS</b>				
Cash and cash equivalents	\$ 7,328	\$ 1,944	\$ 489	\$ 61
Investments - current	-	-	-	-
Taxes receivable - delinquent	-	-	-	-
Allowance for uncoll. taxes	-	-	-	-
Intergovernmental receivable	-	-	-	-
Total Assets	\$ 7,328	\$ 1,944	\$ 489	\$ 61
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued salaries and benefits	-	-	-	-
Retainage payable	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total Liabilities	-	-	-	-
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources-property taxes	-	-	-	-
Total deferred inflows of resources	-	-	-	-
<b>FUND BALANCES</b>				
Restricted for:				
Debt service	-	-	-	-
Committed for:				
Specific purposes	7,328	1,944	489	61
Capital projects	-	-	-	-
Total Fund Balances	7,328	1,944	489	61
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 7,328	\$ 1,944	\$ 489	\$ 61

**Special Revenue Funds**

HOMES Project	Hazard Mitigation Grant Projects Fund	Cops Hiring Grant	Grant and Donation Fund	Veterans Memorial Park	Smithville Cares	PEG Capital Fee
\$ 201	\$ 18,323	\$ -	\$ 2,844	\$ 1,250	\$ 3,522	\$ 17,142
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
4,095	292,425	6,098	-	-	-	-
<u>\$ 4,296</u>	<u>\$ 310,748</u>	<u>\$ 6,098</u>	<u>\$ 2,844</u>	<u>\$ 1,250</u>	<u>\$ 3,522</u>	<u>\$ 17,142</u>
\$ -	\$ 86,969	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	774	-	-	-	-
-	16,415	-	-	-	-	-
4,095	190,746	5,324	-	-	-	-
-	16,618	-	2,844	-	-	-
<u>4,095</u>	<u>310,748</u>	<u>6,098</u>	<u>2,844</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
201	-	-	-	1,250	3,522	17,142
-	-	-	-	-	-	-
<u>201</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,250</u>	<u>3,522</u>	<u>17,142</u>
<u>\$ 4,296</u>	<u>\$ 310,748</u>	<u>\$ 6,098</u>	<u>\$ 2,844</u>	<u>\$ 1,250</u>	<u>\$ 3,522</u>	<u>\$ 17,142</u>

CITY OF SMITHVILLE, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Special Revenue Funds		Debt Service Fund	Capital Projects Fund
	Airport Fly- In	Independence Park	Interest & Sinking Fund	Bonds Projects
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,227	\$ 5,587	\$ -	\$ -
Investments - current	-	-	362,877	30,355
Taxes receivable - delinquent	-	-	35,324	-
Allowance for uncoll. taxes	-	-	(3,532)	-
Intergovernmental receivable	-	-	-	-
Total Assets	<u>\$ 4,227</u>	<u>\$ 5,587</u>	<u>\$ 394,669</u>	<u>\$ 30,355</u>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued salaries and benefits	-	-	-	-
Retainage payable	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources-property taxes	-	-	31,792	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>31,792</u>	<u>-</u>
<b>FUND BALANCES</b>				
Restricted for:				
Debt service	-	-	362,877	-
Committed for:				
Specific purposes	4,227	5,587	-	-
Capital projects	-	-	-	30,355
Total Fund Balances	<u>4,227</u>	<u>5,587</u>	<u>362,877</u>	<u>30,355</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 4,227</u>	<u>\$ 5,587</u>	<u>\$ 394,669</u>	<u>\$ 30,355</u>

Capital Projects Fund		Total Non- Major Governmental Funds	
TAP Loop 230 Sidewalk			
\$ -	\$	62,918	
-		393,232	
-		35,324	
-		(3,532)	
4,000		306,618	
<u>\$ 4,000</u>	<u>\$</u>	<u>794,560</u>	

\$ 4,000	\$	90,969	
-		774	
-		16,415	
-		200,165	
-		19,462	
<u>4,000</u>	<u>\$</u>	<u>327,785</u>	

-		31,792	
-		31,792	

-		362,877	
-		41,751	
-		30,355	
-		434,983	
<u>\$ 4,000</u>	<u>\$</u>	<u>794,560</u>	

CITY OF SMITHVILLE, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Special Revenue Funds			
	Railroad Park	Police Seized Asset Fund	Skate Park	2009 TXCDBG Project
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Grants and contributions	-	-	-	-
Investment earnings	114	18	4	-
Contributions from private sources	658	-	-	-
Total Revenues	772	18	4	-
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Culture and recreation	7,060	-	-	-
Debt service:				
Bond principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	-	-
Total Expenditures	7,060	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	(6,288)	18	4	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net change in fund balance	(6,288)	18	4	-
Fund Balance - Beginning	13,616	1,926	485	61
Fund Balance - Ending	\$ 7,328	\$ 1,944	\$ 489	\$ 61

**Special Revenue Funds**

HOMES Project	Hazard Mitigation Grant Projects Fund	Cops Hiring Grant	Grant and Donation Fund	Veterans Memorial Park	Smithville Cares	PEG Capital Fee
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,995	317,274	30,398	11,699	-	-	-
-	-	-	-	12	33	144
-	-	-	-	100	-	-
2,995	317,274	30,398	11,699	112	33	144
2,995	-	-	11,699	-	-	-
-	-	30,398	-	187	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	424,737	-	-	-	-	-
2,995	424,737	30,398	11,699	187	-	-
-	(107,463)	-	-	(75)	33	144
-	107,463	-	-	-	-	-
-	107,463	-	-	-	-	-
-	-	-	-	(75)	33	144
201	-	-	-	1,325	3,489	16,998
\$ 201	\$ -	\$ -	\$ -	\$ 1,250	\$ 3,522	\$ 17,142

CITY OF SMITHVILLE, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Special Revenue Funds		Debt Service Fund	Capital Projects Fund
	Airport Fly-In	Independence Park	Interest & Sinking Fund	Bonds Projects
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 292,654	\$ -
Grants and contributions	-	-	-	-
Investment earnings	33	54	2,323	293
Contributions from private sources	674	-	-	-
Total Revenues	707	54	294,977	293
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Culture and recreation	63	600	-	-
Debt service:				
Bond principal	-	-	290,000	-
Interest	-	-	97,120	-
Capital outlay	-	-	-	-
Total Expenditures	63	600	387,120	-
Excess (Deficiency) of Revenues Over Expenditures	644	(546)	(92,143)	293
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	96,000	-
Total Other Financing Sources (Uses)	-	-	96,000	-
Net change in fund balance	644	(546)	3,857	293
Fund Balance - Beginning	3,583	6,133	359,020	30,062
Fund Balance - Ending	\$ 4,227	\$ 5,587	\$ 362,877	\$ 30,355

Capital Projects Fund		Total Non- Major Governmental Funds	
TAP Loop 230 Sidewalk			
\$ -	\$	292,654	
4,000		366,366	
-		3,028	
-		1,432	
4,000		663,480	
-		14,694	
-		38,308	
-		290,000	
-		97,120	
57,736		482,473	
57,736		922,595	
(53,736)		(259,115)	
53,736		257,199	
53,736		257,199	
-		(1,916)	
-		436,899	
\$ -	\$	434,983	

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CITY OF SMITHVILLE, TEXAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - DEBT SERVICE FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 291,120	\$ 291,120	\$ 292,654	\$ 1,534
Investment earnings	-	-	2,323	2,323
Total Revenues	291,120	291,120	294,977	3,857
<b>EXPENDITURES</b>				
Debt service:				
Bond principal	290,000	290,000	290,000	-
Interest	97,120	97,120	97,120	-
Total Expenditures	387,120	387,120	387,120	-
Excess (Deficiency) of Revenues Over Expenditures	(96,000)	(96,000)	(92,143)	3,857
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	96,000	96,000	96,000	-
Total other financing sources (uses)	96,000	96,000	96,000	-
Net change in fund balances	-	-	3,857	3,857
Fund Balance - Beginning	359,020	359,020	359,020	-
Fund Balance - Ending	\$ 359,020	\$ 359,020	\$ 362,877	\$ 3,857

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OTHER REPORTING SECTION

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# SINGLETON, CLARK & COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

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

Honorable Mayor, Members of the City Council, and Citizens of the  
City of Smithville, Texas:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Smithville, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 20, 2018.

### **Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

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

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**Purpose of this Report**

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

*Singleton, Clark & Company, PC*

Singleton, Clark & Company, PC  
Cedar Park, Texas

April 20, 2018

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# SINGLETON, CLARK & COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL FOR EACH MAJOR PROGRAM AS REQUIRED BY UNIFORM GUIDANCE AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Honorable Mayor, Members of the City Council, and Citizens of the  
City of Smithville, Texas:

### Report on Compliance for Each Major Federal Program

We have audited the City of Smithville, Texas's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Smithville, Texas's major federal programs for the year ended September 30, 2017. City of Smithville, Texas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Smithville, Texas's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Smithville, Texas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Smithville, Texas's compliance.

### Opinion on Each Major Federal Program

In our opinion, City of Smithville, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

### Report on Internal Control Over Compliance

Management of City of Smithville, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Smithville, Texas's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the federal Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Smithville, Texas's internal control over compliance.

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*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by *Uniform Guidance***

We have audited the financial statements of City of Smithville, Texas as of and for the year ended September 30, 2017, and have issued our report thereon dated April 20, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Singleton, Clark & Company, PC*

Singleton, Clark & Company, PC  
Cedar Park, Texas

April 20, 2018

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CITY OF SMITHVILLE, TEXAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>			
<u>Pass-Through Program Texas Department of Housing &amp; Community Affairs</u>			
Home Investment Partnerships Program	14.239	1002459	\$ 2,020
Home Investment Partnerships Program	14.239	1002323	975
Total Passed through Texas Department of Housing & Community Affairs			<u>2,995</u>
<u>Pass-Through Program Texas General Land Office</u>			
Community Development Block Grant	14.228	13-353-000-7707	1,307,747
Total Passed through Texas General Land Office			<u>1,307,747</u>
<b>TOTAL U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>			<u>1,310,742</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
<u>Pass-Through Texas Office of the Governor - Criminal Justice Division</u>			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	3077101	54,763
Truancy Reduction Program	16.540	3092401	19,293
COPS Hiring Program (CHP)	16.710	2015UMWX0119	30,398
Total Passed through Texas Office of the Governor - Criminal Justice Division			<u>104,454</u>
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			<u>104,454</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
<u>Pass-Through Program Texas Department of Transportation</u>			
Transportation Alternatives Program	20.205	0265-13-022	4,000
Total Passed through Texas Department of Transportation			<u>4,000</u>
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>			<u>4,000</u>
<b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>			
<u>Pass-Through Program Texas State Library &amp; Archives Commission</u>			
ILL Lending Reimbursement Program	45.310	LS-00-16-0044-16	1,893
Total Passed through Texas State Library & Archives Commission			<u>1,893</u>
<b>TOTAL INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>			<u>1,893</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
<u>Pass-Through Program Texas Division of Emergency Management</u>			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-06-TX-4272-PW00317	4,299
Hazard Mitigation Grant (HMGP)	97.039	FEMA-4223-DR-TX	317,274
Hazard Mitigation Grant (HMGP)	97.039	FEMA-4245-DR-TX	15
Total Passed through Texas Division of Emergency Management			<u>321,588</u>
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>			<u>321,588</u>
<b>U.S. DEPARTMENT OF COMMERCE</b>			
<u>Pass-Through Program Economic Development Administration</u>			
Investments for Public Works and Economic Development Facilities	11.300	08-01-04896	152,742
Total Passed through Economic Development Administration			<u>152,742</u>
<b>TOTAL U.S. DEPARTMENT OF COMMERCE</b>			<u>152,742</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 1,895,419</u>

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CITY OF SMITHVILLE, TEXAS  
NOTES TO THE SCHEDULE OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**General** – The accompanying schedule of expenditures of federal awards presents all federal expenditures of the City of Smithville, Texas (the “City”).

**Basis of Accounting** – The expenditures on the accompanying schedule of expenditures of federal awards are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized in the accounting period in which it becomes available and measurable, and expenditures in the accounting period in which the fund liability is incurred, if measurable.

**Relationship to the Basic Financial Statements** – Expenditures of federal awards are reported in the City’s basic financial statements primarily in the General Fund but at times a Special Revenue Fund or a Capital Projects Fund is used.

**Relationship to Federal Financial Reports** – Amounts reported in the accompanying schedule of expenditures of federal awards agree with the amounts reported in the related federal financial reports in all significant respects.

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CITY OF SMITHVILLE, TEXAS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**FEDERAL AWARDS**

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor’s report issued on compliance for major programs:

Community Development Block Grant	Unmodified
Hazard Mitigation Grant	Unmodified

Any audit findings disclosed that are required to be reported in accordance with the federal Uniform Guidance?  Yes  No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grant
97.039	Hazard Mitigation Grant

Dollar threshold used to distinguish Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?  Yes  No

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CITY OF SMITHVILLE, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

Findings Related to Financial Statements Which are Required to be Reported in Accordance with Government Auditing Standards:

No findings or questioned costs were required to be reported in accordance with *Government Auditing Standards* for the years ended September 30, 2017 and 2016.

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Findings Related to Federal Awards Which are Required to be Reported in Accordance with federal Uniform Guidance:

No findings or questioned costs were required to be reported in accordance with federal Uniform Guidance for the years ended September 30, 2017 and 2016.

