

CITY OF NOLANVILLE, TEXAS
BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

September 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Nolanville, Texas

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely component unit, each major fund, and the aggregate remaining fund information of the City of Nolanville, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 3–8, budgetary comparison information, on page 34, and employee retirement and post-employment benefit information, on pages 36-37, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2018, on our consideration of the City of Nolanville, Texas' internal control over financial reporting and 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 the 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.

Alton D. Thiele, P.C.

Belton, Texas
March 12, 2018

CITY OF NOLANVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Nolanville's (the City) financial performance provides an overview and analysis of the City's financial activities for the year ended September 30, 2017. Please read it in conjunction with the Independent Auditors' Report on pages 1-2, and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the year by \$2,998,125 (net position).
- During the year, the City had total expenses of \$1,513,349 compared to revenues of \$2,309,466, resulting in an increase in its net position by \$796,117.
- The City's investment in capital assets totaled \$3,648,470 net of accumulated depreciation of \$2,907,301.
- Total debt of \$2,355,000 was increased in net by \$430,000 due to new bonds issued and principal payments.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the City's net position changed during the 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 in this statement for some items that will result in cash flows in future periods. This may include uncollected taxes and other revenue or expenses that are appropriate for the current year even though cash is not received or expended until the following year.

CITY OF NOLANVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities include general government, judicial, law enforcement, and public works. The City currently only has governmental type activities.

The government-wide financial statements can be found on pages 9-10 of this report.

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported 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 spendable resources available at the end the fiscal year. Such information may be useful in evaluating 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 the comparison between government funds and governmental activities.

The City maintains two governmental funds, the General Fund and Debt Service Fund. The basic governmental fund financial statements can be found on pages 11-14 of this report.

Proprietary Funds. The only type of proprietary fund of the City is the Enterprise Fund. This fund is used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The City does not have any proprietary funds.

CITY OF NOLANVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Notes to the Financial Statements. The notes provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements. These can be found starting on page 15.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position. The City's assets exceed liabilities by \$2,998,125 as of September 30, 2017. A large portion of the City's net position reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. (See Table I).

**Table I
NET POSITION**

	Governmental Activities			
	2017	2016	Change	% Change
Current and other assets	\$ 1,894,116	\$ 1,165,468	\$ 728,648	62.5%
Capital assets, net	3,648,470	3,160,345	488,125	15.4%
Total assets	<u>5,542,586</u>	<u>4,325,813</u>	<u>1,216,773</u>	<u>28.1%</u>
Deferred outflows of resources	70,900	9,329	61,571	660.0%
Total deferred outflows of resources	<u>70,900</u>	<u>9,329</u>	<u>61,571</u>	<u>660.0%</u>
Current liabilities	206,645	159,469	47,176	29.6%
Noncurrent liabilities	2,408,716	1,973,665	435,051	22.0%
Total liabilities	<u>2,615,361</u>	<u>2,133,134</u>	<u>482,227</u>	<u>22.6%</u>
Net position:				
Net investment in capital assets	1,352,459	1,235,345	117,114	9.5%
Restricted for:				
Debt service	55,709	46,830	8,879	19.0%
Unrestricted	1,589,957	919,833	670,124	72.9%
Total net position	<u>\$ 2,998,125</u>	<u>\$ 2,202,008</u>	<u>\$ 796,117</u>	<u>36.2%</u>

CITY OF NOLANVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the City's net position represents resources that are subject to external and internal restrictions and on how they may be used. The remaining balance of the unrestricted net position may be used to meet the City's ongoing obligations to its citizens.

Changes in Net Position. Revenues totaled \$2,309,466 for the year, an increase of \$805,024 over the prior year. An increase in sales, property and franchise taxes and the receipt of grant funds is the primary cause of the increase. Expenses totaled \$1,513,349 for the year, an increase of \$148,809. This increase was primarily the result of higher expenses in public safety and public works. (See Table II).

**Table II
CHANGES IN NET POSITION**

	Governmental Activities			
	2017	2016	Change	% Change
Revenues				
Program Revenues:				
Charges for services	\$ 74,898	\$ 63,360	\$ 11,538	18.2%
Grant income	465,100	-	465,100	100.00%
General Revenues:				
Property tax	955,742	902,837	52,905	5.9%
Sales tax	453,685	227,161	226,524	99.7%
Franchise and other taxes	235,355	170,116	65,239	38.3%
Fines and court fees	74,832	102,203	(27,371)	-26.8%
Interest income	16,426	7,536	8,890	118.0%
Other income	33,428	31,229	2,199	7.0%
Total revenues	2,309,466	1,504,442	805,024	53.5%
Expenses:				
General government	418,741	399,035	19,706	4.9%
Judicial	71,211	74,469	(3,258)	-4.4%
Public safety	468,012	425,366	42,646	10.0%
Public works	479,096	379,868	99,228	26.1%
Interest and bond issuance costs	76,289	85,802	(9,513)	-11.1%
Total Expenses	1,513,349	1,364,540	148,809	10.9%
Change in position	796,117	139,902	656,215	42.6%
Net position - beginning	2,202,008	2,270,973	(68,965)	-3.0%
Prior period adjustment	-	(208,867)	208,867	-100.0%
Net position - ending	\$ 2,998,125	\$ 2,202,008	\$ 796,117	39.6%

CITY OF NOLANVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

The Governmental Accounting Standards Board (GASB) Statement 54 requires fund balances to be classified as follows:

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

Restricted – Amounts with restrictions that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can only be used for specific purposes and imposed by formal action of the government's highest level of decision making authority. In the case of the City it is the City Council and the formal action would be an ordinance to modify or rescind the commitment.

Assigned – Amounts constrained by City management's intent to be used for specific purposes but are not formally restricted by external resources or committed by City Council.

Unassigned – Amount of the remaining fund balance not in any of the other classifications.

As the City completed the year, its general fund (as presented in the balance sheet on page 11) reported a total fund balance of \$1,663,699 (an increase over the prior year of \$678,075). This increase was largely due to grant fund receipts and proceeds from bond issuance.

General Fund Budget Highlights. Actual revenues were \$2,306,069, which were lower than budgeted revenues of \$2,325,525 due to the net result of property taxes and grant funds being under budget and franchise and sales taxes being over budget. Actual expenditures were \$2,134,285 which were lower than the budgeted expenditures of \$2,951,970. Majority of budgeted grant expenses had not occurred before fiscal year end. The budget is presented in the required supplemental information section on page 34.

CITY OF NOLANVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2017, the City had invested \$3,648,470 in capital assets (net of accumulated depreciation of \$2,907,301), including equipment and land. Major additions were ongoing grant projects, city hall improvements and street improvements.

More detailed information about the City's capital assets is presented in the Notes to the Financial Statements starting on page 24.

Debt

At year-end, the City had \$2,355,000 in total debt. This net increase of \$430,000 was the result of new bonds issued and principal payments. More detailed information about the City's long-term debt is presented in the Notes to the Financial Statements starting on page 25.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's officials considered many factors when setting the fiscal year 2016-2017 budget and tax rates. Some of those factors include the economy and the anticipated needs of the City for operations and capital outlay in the next year.

The City adopted a \$2,639,359 budget for all funds and departments for fiscal year 2017-2018, reflecting a deficit balance of \$134,428. It will be funded primarily through property taxes, sales and franchise taxes, and court fines.

If the City does not incur any unforeseen expenditures or reductions in revenue, the City's management is confident they will accomplish the task of providing improved services within its available resources.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest therein. Questions concerning any of the information provided in this report or requests for additional information should be addressed to City Hall: City of Nolanville, 101 N. 5th Street, Nolanville, Texas 76559.

BASIC FINANCIAL STATEMENTS

CITY OF NOLANVILLE, TEXAS
STATEMENT OF NET POSITION
September 30, 2017

	<u>Primary Government</u>		<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Total</u>	<u>Nolanville Economic Development Corporation</u>
ASSETS			
Cash	\$ 70,279	\$ 70,279	\$ 3,211
Investments	1,349,318	1,349,318	78,189
Accounts receivable, net	27,624	27,624	-
Other assets	1,468	1,468	-
Due from General Fund	-	-	25,995
Capital assets, net	3,648,470	3,648,470	-
Restricted assets:			
Cash and investments	445,427	445,427	-
Total assets	<u>5,542,586</u>	<u>5,542,586</u>	<u>107,395</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts on refunding	58,989	58,989	-
Deferred amounts related to pension	11,911	11,911	-
Total deferred outflows of resources	<u>70,900</u>	<u>70,900</u>	<u>-</u>
LIABILITIES			
Accounts payable	134,738	134,738	-
Payroll liabilities	3,212	3,212	-
Due to EDC	25,995	25,995	-
Accrued liabilities	16,997	16,997	-
Unearned revenue	25,703	25,703	-
Noncurrent liabilities			
Due within one year	240,000	240,000	-
Due in more than one year	2,115,000	2,115,000	-
Net pension liability	53,716	53,716	-
Total liabilities	<u>2,615,361</u>	<u>2,615,361</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	1,352,459	1,352,459	-
Restricted for:			
Debt service	55,709	55,709	-
Unrestricted	1,589,957	1,589,957	107,395
Total net position	<u>\$ 2,998,125</u>	<u>\$ 2,998,125</u>	<u>\$ 107,395</u>

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

CITY OF NOLANVILLE, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Component Unit</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>	<u>Total</u>	
Primary Government:						
Governmental activities:						
General government	\$ 418,741	\$ 74,898	\$ 299,855	\$ (43,988)	\$ (43,988)	\$ -
Judicial	71,211	-	-	(71,211)	(71,211)	-
Public safety	468,012	-	-	(468,012)	(468,012)	-
Public works	479,096	-	165,245	(313,851)	(313,851)	-
Interest expense	48,124	-	-	(48,124)	(48,124)	-
Bond issuance costs	28,165	-	-	(28,165)	(28,165)	-
Total governmental activities	<u>1,513,349</u>	<u>74,898</u>	<u>465,100</u>	<u>(973,351)</u>	<u>(973,351)</u>	<u>-</u>
 Total primary government	 <u>\$1,513,349</u>	 <u>\$ 74,898</u>	 <u>\$ 465,100</u>	 <u>(973,351)</u>	 <u>(973,351)</u>	 <u>-</u>
 Component units:						
Nolanville Economic Development Corporation	\$ 171,622	\$ -	\$ -	-	-	(171,622)
Total component units	<u>\$ 171,622</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>(171,622)</u>
 General revenues:						
Property taxes				955,742	955,742	-
Sales tax				453,685	453,685	90,737
Franchise taxes				235,355	235,355	-
Rental				16,524	16,524	-
Fines and fees				74,832	74,832	-
Interest earned				16,426	16,426	1,235
Other income				16,904	16,904	-
Total general revenues				<u>1,769,468</u>	<u>1,769,468</u>	<u>91,972</u>
Changes in position				796,117	796,117	(79,650)
Net position - beginning of year				2,202,008	2,202,008	187,045
Net position - end of year				<u>\$ 2,998,125</u>	<u>\$ 2,998,125</u>	<u>\$ 107,395</u>

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

CITY OF NOLANVILLE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2017

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash	\$ 68,232	\$ 2,047	\$ 70,279
Investments	1,349,318	-	1,349,318
Accounts receivable, net	21,339	6,284	27,623
Due from other funds and entities	-	56,253	56,253
Other assets	1,468	-	1,468
Restricted assets:			
Cash and investments	445,427	-	445,427
Total assets	\$ 1,885,784	\$ 64,584	\$ 1,950,368
LIABILITIES			
Accounts payable	\$ 134,738	\$ -	\$ 134,738
Payroll liabilities	3,212	-	3,212
Accrued liabilities	13,517	3,481	16,998
Unearned revenue	25,703	-	25,703
Due to other funds	82,249	-	82,249
Total liabilities	259,419	3,481	262,900
DEFERRED INFLOW OF RESOURCES			
Unavailable revenue:			
Property taxes	18,375	5,394	23,769
Total deferred inflow of resources	18,375	5,394	23,769
FUND BALANCE			
Restricted	445,427	55,709	501,136
Unassigned	1,162,563	-	1,162,563
Total fund balance	1,607,990	55,709	1,663,699
Total liabilities, deferred inflow of resources and fund balance	\$ 1,885,784	\$ 64,584	\$ 1,950,368

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

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

Total fund balance – governmental funds (page 11) \$ 1,663,699

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund. These assets consist of:

Land	59,500	
Buildings and street improvements	4,603,160	
Vehicles	556,643	
Grant projects	606,419	
Equipment and furniture	730,049	
Accumulated depreciation	<u>(2,907,301)</u>	
Net Capital Assets		3,648,470

Some revenues in the governmental fund are recorded as deferred inflow of resources because they are not collected within the prescribed time period (60 days) after yearend, and are therefore unavailable resources. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected. 23,772

Deferred outflows of resources represent the consumption of net position that applies to future periods and will not be recognized as an expense until then:

Deferred amounts on refunding	58,989	
Deferred amount related to pension	<u>11,911</u>	
		70,900

Some assets and liabilities are not considered resources available or due in the current period and therefore are not reported in the governmental fund. These consist of:

Long-term debt	(2,355,000)	
Net pension liability	<u>(53,716)</u>	
Total		<u>(2,408,716)</u>

Net position of governmental activities (page 9) \$ 2,998,125

The accompanying notes are an integral part of the financial statements

CITY OF NOLANVILLE, TEXAS
STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended
September 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUE			
Property tax	\$ 735,604	\$ 216,742	\$ 952,346
Sales taxes	453,685	-	453,685
Franchise and other taxes	235,355	-	235,355
Fines	74,832	-	74,832
Charges for services	74,898	-	74,898
Rental	16,524	-	16,524
Interest	16,425	-	16,425
Other income	16,904	-	16,904
Total revenue	<u>1,624,227</u>	<u>216,742</u>	<u>1,840,969</u>
EXPENDITURES			
General government	377,036	2,586	379,622
Judicial	70,991	-	70,991
Public safety	440,484	-	440,484
Public works	312,535	-	312,535
Debt service:			
Principal	-	170,000	170,000
Interest	-	41,569	41,569
Capital outlay	719,084	-	719,084
Total expenditures	<u>1,920,130</u>	<u>214,155</u>	<u>2,134,285</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(295,903)</u>	<u>2,587</u>	<u>(293,316)</u>
OTHER FINANCING SOURCES (USES)			
Contributions and grants	465,100	-	465,100
Issuance of bonds	500,000	-	500,000
Refunding bonds issued	-	1,945,000	1,945,000
Payment to refunded bond escrow agent	-	(1,910,544)	(1,910,544)
Bond issuance costs	-	(28,165)	(28,165)
Total Other Financing Sources (Uses)	<u>965,100</u>	<u>6,291</u>	<u>971,391</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>669,197</u>	<u>8,878</u>	<u>678,075</u>
FUND BALANCE, BEGINNING OF YEAR	718,545	267,079	985,624
ADJUSTMENTS FOR PRIOR PERIOD	<u>220,248</u>	<u>(220,248)</u>	<u>-</u>
FUND BALANCE, BEGINNING OF YEAR, AS ADJUSTED	<u>938,793</u>	<u>46,831</u>	<u>985,624</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,607,990</u>	<u>\$ 55,709</u>	<u>\$ 1,663,699</u>

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

CITY OF NOLANVILLE, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

Net change in fund balances – total governmental funds (page 13) \$ 678,075

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

The issuance of long-term debt provides current financial resources in the governmental fund, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is issued, where as these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the in the treatment of long-term debt and related items.

Issuance of bonds	(2,445,000)	
Principal payments	170,000	
Payment to escrow agent for refunding	1,910,544	
Amortization of bond refunding amounts	<u>(6,553)</u>	
Net adjustment		(371,009)

Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflow of resources in the governmental fund. This is the net change from the previous period. 3,396

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 488,124

Pension-related expenses do not require the use of current resources, and therefore are not reported in the fund statements. This is the amount by which pension related expenses exceeded current year contributions. (2,469)

Change in net position of governmental activities (page 10) \$ 796,117

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

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Nolanville (the City) conform to generally accepted accounting principles (GAAP) in the United States of America, applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for established governmental accounting and financial reporting principles. The more significant of the City's policies are described below.

A. REPORTING ENTITY

The City is a home rule city in Bell County, Texas which operates under a council-manager form of government and provides such services as public safety (police and fire), highways and streets, public improvements, planning and zoning, judicial, general administrative and other services as are authorized by its code of ordinances and its citizens.

In evaluating the City's financial reporting entity, management has considered all potential component units. The decision to include potential component units was made as set forth in GASB Statement No. 61. The component units discussed below have been included based on this criterion.

Nolanville Economic Development Corporation (NEDC) is included as a component unit because of its operational and financial relationship with the City. The Corporation receives its primary funding from a sales tax assessed by the City, and the City appoints the members of the governing board. The Corporation was created by the City to enhance the economic development of the Nolanville community. The Nolanville Economic Development Corporation is presented as a discretely presented component unit. Financial statements for the NEDC may be obtained from the finance department of the City.

B. BASIS OF PRESENTATION

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 non-fiduciary activities of the City. As a general rule, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds.

The City reports the following major governmental funds:

General Fund-The general fund is the City's primary operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

Debt Service Fund-The debt service fund is used to manage debt payments and serve as the reserve fund for payments due within the following year.

The City does not have any proprietary funds to report.

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

Proprietary funds distinguish *operating revenues* and expenses from *non-operating* items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise 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 non-operating revenues and expenses.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as 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.

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING (Continued)

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 claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, fines, 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. All other governmental fund revenues are considered to be measurable and available only when cash is received by the City. Property taxes receivable not determined to be available to finance current period obligations are recorded and deferred in the fund statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

a. Cash and Cash Equivalents

The City's cash and cash equivalents for the purpose of the statement of net position consist of cash on hand and saving accounts which are available for immediate withdrawal.

b. Accounts Receivables

In the governmental funds, receivables include primarily property tax, sales tax, franchise fees and fines. All receivables are current and therefore due within one year. Activities between funds and component units that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (Continued)

c. Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment and infrastructure are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$2,500 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Capital assets of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	15-50
Machinery and equipment	7-10
Furniture and fixtures	7-10
Infrastructure	10-50

d. Restricted Assets

Certain resources of the City are set aside primarily for the repayment of its notes and capital lease obligations or for specified uses or projects and accordingly are classified as restricted assets on the statement of net position because their use is limited by applicable covenants.

e. Long- Term Debt

In the government-wide financial statements and in the fund financial statements for proprietary fund types, long-term debt is reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts received on debt issuances are also reported as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt services expenditures.

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (Continued)

f. Deferred Outflows/Inflows of Resources

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

- Deferred charges on refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following year.
- Difference in projected and actual earnings on pension assets – The difference is deferred and amortized over a closed five-year period.

In addition to liabilities, the statement of net 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. The City has only one item that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue-property taxes*, is reported in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the periods the amounts become available.

g. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

h. Pensions

For the purposes of measuring the net pension liability/asset, 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 to 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.

i. Property Taxes

The City's property taxes are levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The assessed value for the tax roll of January 1, 2016, upon which the 2017 fiscal year levy was based was \$196,794,919. The tax levy of October 2015 set a tax rate of \$.5020 per \$100 of assessed valuation at 100 percent of assumed market value.

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (Continued)

j. Equity Classifications

In the government-wide financial statements, equity is shown as net position and classified into three components:

Net investment in capital assets – Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted – Consists of assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; 2) law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources, as they are needed.

Unrestricted – All other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

The City reports governmental fund balances by the five following classifications:

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

Restricted – Amounts with restrictions that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can only be used for specific purposes and imposed by formal action of the government's highest level of decision making authority. In the case of the City it is the City Council and the formal action would be an ordinance to modify or rescind the commitment.

Assigned – Amounts constrained by City management's intent to be used for specific purposes but are not formally restricted by external resources or committed by City Council.

Unassigned – Amount of the remaining fund balance not in any of the other classifications.

For the classification of fund balances, the City considers restricted amounts to have been spent first when an expenditure is incurred for the purpose for which restricted and unrestricted fund balance is available. Expenditures are to be spent from restricted fund balance first, followed by committed, assigned, and lastly unassigned fund balance.

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The City Council follows these procedures in establishing the budgetary data reflected in the required supplemental information:

Prior to the end of each fiscal year, the City Secretary submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data from the preceding year.

Public hearings are conducted to obtain taxpayer comments. Prior to September 30, the budget is legally enacted through passage by majority vote of the City Council. The Council may authorize supplemental appropriations during the year.

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

3. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

At September 30, 2017, the carrying amount of the City's and NEDC's cash deposits were \$515,705 and \$3,211 respectively, the bank balances were \$582,227 and \$6,544, respectively.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds (8) investment pools,

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

3. DETAILED NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Legal and Contractual Provisions Governing Deposits and Investments

(9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

As of September 30, 2017, the City's investments were invested with National Bank and Texpool. The City categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are other observable inputs; and Level 3 inputs are unobservable inputs. As of September 30, 2017, the City had the following investments:

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Input Level</u>
<u>Primary Government</u>			
National Bank	\$ 20,050	\$ 20,050	1
Investment pools:			
Texpool	8,249	8,249	2
Texpool Prime	1,321,020	1,321,020	2
Total investment pools	<u>1,329,269</u>	<u>1,329,269</u>	
Total investments	<u>1,349,319</u>	<u>1,349,319</u>	
<u>Nolanville Economic Development Corporation</u>			
National Bank	10,364	10,364	1
Investment pools:			
Texpool	25,611	25,611	2
Texpool Prime	42,214	42,214	2
Total investment pools	<u>67,825</u>	<u>67,825</u>	
Total investments	<u>78,189</u>	<u>78,189</u>	
<u>Reporting Entity</u>			
Total investments	<u>\$ 1,427,508</u>	<u>\$ 1,427,508</u>	

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

3. DETAILED NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Policies Governing Deposits and Investments

In compliance with the Public Funds Investments Act, the City has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City's deposits for the year were collateralized with pledged securities from the City's depository bank.

Custodial Credit Risk – Investments: 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. The City's policy requires investments, other than investment pools, to be held by a third-party custodian bank. All of the City's investments, other than investment pools, were held by the City's third-party custodian bank in the City's name.

Interest Rate Risk: In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to less than 90 days for investment pools and maturity no more than two years from purchase date for certificates of deposits and money market funds. As of September 30, 2017, the weighted average maturity of TexPool and TexPool Prime were 37 days and 51 days respectively.

Other Credit Risk: In compliance with the City's Investment Policy, as of September 30, 2017, the City minimized credit risk losses due to a default of a security issuer or backer, by limiting investments to the safest types of securities; limiting Certificates of Deposit that are insured by the Federal Deposit Insurance Corporation (FDIC); limiting the City's investments to obligations issued, guaranteed, insured by or backed by the full faith and credit of the United States or its agencies and instrumentalities; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business; and diversifying the investment portfolio so that potential losses on individual securities were minimized.

TexPool has been established for governmental entities in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. Finally, TexPool is rated AAAM by Standard & Poor's. The City's fair value position is stated at the value of the position upon withdrawal.

A reconciliation of cash and investments, as shown in the Statement of Net Position for the City, follows on the next page:

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

3. DETAILED NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Policies Governing Deposits and Investments

	Primary Government	Discretely Presented Component Unit	Total Reporting Entity
Cash and investments (from previous pages)			
Carrying amount of deposits	\$ 515,705	\$ 3,211	\$ 518,916
Carrying amount of investments	1,349,319	78,189	1,427,508
Total	\$ 1,865,024	\$ 81,400	\$ 1,946,424
Statement of Net Position:			
Cash	\$ 70,279	\$ 3,211	\$ 73,490
Investments	1,349,318	78,189	1,427,507
Restricted cash and investments	445,427	-	445,427
Total	\$ 1,865,024	\$ 81,400	\$ 1,946,424

B. RESTRICTED ASSETS

Restricted assets consist of cash balances that are dedicated to the following:

	Governmental	Total
Capital improvements	\$ 445,427	\$ 445,427
Total	\$ 445,427	\$ 445,427

C. CAPITAL ASSETS

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

	Balance October 1, 2016	Additions	Transfers/ Retirements	Balance September 30, 2017
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 59,500	\$ -	\$ -	\$ 59,500
Capital assets being depreciated:				
Buildings and improvements	753,253	52,233	-	805,486
Street improvements	3,637,685	159,989	-	3,797,674
Vehicles	556,643	-	-	556,643
Grant projects	146,332	460,087	-	606,419
Equipment and furniture	683,310	46,739	-	730,049
Total capital assets being depreciated	5,777,223	719,048	-	6,496,271
Less accumulated depreciation	(2,676,341)	(230,960)	-	(2,907,301)
Total capital assets being depreciated, net	3,100,882	488,088	-	3,588,970
Total capital assets, net	\$ 3,160,382	\$ 488,088	\$ -	\$ 3,648,470

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

3. DETAILED NOTES ON ALL FUNDS (Continued)

C. CAPITAL ASSETS (Continued)

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

Governmental activities:	
General government	\$ 38,475
Public safety	26,410
Public works	<u>166,075</u>
Total depreciation expense - governmental activities	<u>\$ 230,960</u>

D. LONG-TERM DEBT

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

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities:					
General Obligation Bonds					
Series - 2007	\$ 1,125,000	\$ -	\$ (1,125,000)	\$ -	\$ -
Series - 2016	-	1,945,000	(90,000)	1,855,000	175,000
Tax Notes					
Series - 2017	-	500,000	-	500,000	65,000
Combination Tax and Surplus Revenue					
Certificates of Obligation - Series 2012	<u>800,000</u>	<u>-</u>	<u>(800,000)</u>	<u>-</u>	<u>-</u>
Governmental activity long - term liabilities	<u>\$ 1,925,000</u>	<u>\$ 2,445,000</u>	<u>\$ (2,015,000)</u>	<u>\$ 2,355,000</u>	<u>\$ 240,000</u>

Long-term debt at September 30, 2017 is comprised of the following:

	<u>Governmental Type Activities</u>
Tax Note:	
\$500,000 Tax Note Series 2017 due in annual installments of \$65,000 to \$75,000 through 2024, interest at 2.07%	\$ 500,000
General Obligation Bonds:	
\$1,945,000 Series 2016 refunding bonds due in annual installments of \$175,000 to \$200,000 through 2027, interest at 1.73%	1,855,000
	<u>\$ 2,355,000</u>

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

3. DETAILED NOTES ON ALL FUNDS (Continued)

D. LONG-TERM DEBT (Continued)

The annual debt service requirements to maturity for the governmental activities are as follows:

Year Ended September 30,	Principal	Interest	Total
2018	240,000	41,769	281,769
2019	245,000	37,344	282,344
2020	250,000	32,868	282,868
2021	250,000	28,305	278,305
2022	260,000	23,690	283,690
2023-2027	1,110,000	53,706	1,163,706
Total	<u>\$ 2,355,000</u>	<u>\$ 217,682</u>	<u>\$ 2,572,682</u>

(1) 2016-2017 Refunding and Issuance –

On October 12, 2016 the City advance refunded the Series 2007 General Obligation Bonds and the Series 2012 Certificates of Obligation. The par amount of the 2016 General Obligation Refunding Bonds was \$1,945,000. Net proceeds of \$1,910,544 of general obligation refunding bonds (after payment of underwriting fees and other issuance costs) were deposited with an escrow agent for the purpose of generating resources for all future debt service payments for the refunded debt. As a result, the refunded bonds are considered defeased, and the debt for these bonds has been removed from the City’s financial statements.

This advanced refunding will reduce the total debt service payments over the next 10 years by \$201,187 and will result in an economic gain (i.e. the difference between the present value of the debt service payments of the refunded debt and the refunding bonds) of \$184,318.

In March of 2017, the City issued \$500,000 of Tax Notes. The interest rate is 2.07% and the maturity date of the bonds is March of 2024. These notes were issued for road construction, repairs and drainage improvements.

The bond indentures require the establishment and maintenance of interest and sinking funds in varying amounts. The City considers the Debt Service Fund for this purpose and has a remaining fund balance on the accompanying balance sheet at September 30, 2017 of \$55,709 for service of long-term debt.

4. OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other governments in the State of Texas to form the Texas Municipal League Intergovernmental Risk Pool (the Pool), a public entity risk pool currently operating as a common risk management and insurance program for liability, property, and workmen’s compensation coverage. The City pays a quarterly contribution to the Pool for its insurance coverage. The agreement for formation of the Pool provides that the Pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits. The City has experienced no significant reductions in coverage through the Pool over the past year. There have been no insurance settlements exceeding Pool coverage for any of the last three years.

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

4. OTHER INFORMATION (CONTINUED)

B. COMMITMENTS AND CONTINGENCIES

a. Fire Protection Services

On August 6, 2015, the City entered a contract with Central Bell County Fire and Rescue, Inc. for fire protection and emergency services. The effective date of the agreement is October 1, 2015 with an initial term of one year beginning on the effective date. The agreement shall renew automatically annually unless notice of cancellation is given by either party. Fees are billed monthly to the City in the amount of \$2,917. During the year ended September 30, 2017 payments by the City under the contract totaled \$35,000.

b. Ambulance Service Agreement

On July 18, 2016, the City entered a new contract with Acadian Ambulance Service of Texas, LLC for ambulance services. The effective date of the agreement is July 18, 2016 with an initial term of three years beginning on the effective date. The agreement shall renew automatically for two successive one-year terms unless notice of cancellation is given by either party. The agreement is for a maximum of five years. Fees are billed monthly to the City in the amount of \$4,167. During the year ended September 30, 2017 payments by the City under the contract totaled \$50,000.

c. Grants

The City participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant program are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

d. Litigation and Violations

The City is a party to legal proceedings, many of which occur in the normal course of operations. In the opinion of management, the ultimate outcome of these claims will not have a material adverse effect on the City's financial position.

The City entered into an Agreed Order with the Texas Commission on Environmental Quality (TCEQ) effective July 12, 2016. The Order alleged that the City failed to maintain authorization to discharge storm water from its separate storm water sewer system. The Ordering Provisions of the Order require, among other things, that the City shall perform a Supplemental Environmental Project (SEP). This SEP is to be a household hazardous waste collection event for the residents of the City. With acceptance of the order and completion of the SEP, TCEQ will defer \$4,500 of the \$22,500 administrative penalty and allow the SEP to offset the remaining \$18,000 of the penalty. In compliance with the order, the City hosted a household hazardous waste collection event in March of 2017.

**CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017**

4. OTHER INFORMATION (CONTINUED)

C. PENSION PLAN

Plan Description

The City of Nolanville participates as one of the 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency defined pension plan 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 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 publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

Plan provisions for the City were as follows:

	Plan Year 2016	Plan Year 2015
Employee deposit rate	5.0%	5.0%
Matching ratio (City to Employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0.0%	0.0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees Covered by Benefit Terms

At the December 31, 2015, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	19
Active employees	<u>13</u>
Total	34

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

4. OTHER INFORMATION (Continued)

C. PENSION PLAN (Continued)

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 the benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Nolanville were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Nolanville were 2.18% and 1.89% in calendar years 2017 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$10,721 and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions:

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, male rates multiplied by 109% and female rates multiplied by 103%. For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members and 100% for employers with 11 to 15 members, and 115% for employers with less than a 100 members. There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%). For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than the 20 member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use $(25-(20-8)) = 13$ year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be $25-(20-1) = 6$ years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

4. OTHER INFORMATION (Continued)

C. PENSION PLAN (Continued)

For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are subject on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used by consulting actuary, Gabriel Roeder Smith & Company (GRS) 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. 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 the 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 various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimate of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

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

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

4. OTHER INFORMATION (Continued)

C. PENSION PLAN (Continued)

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.

<i>Changes in Net Pension Liability</i>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	128,569	79,904	48,665
Changes for the year:			
Service cost	32,551	-	32,551
Interest	9,592	-	9,592
Change of benefit terms	-	-	-
Difference between expected and actual experience	2,346	-	2,346
Changes of assumptions	-	-	-
Contributions - employer	-	9,340	(9,340)
Contributions - employee	-	24,735	(24,735)
Net investment income	-	5,427	(5,427)
Benefit payments, including refunds of employee contributions	(5,477)	(5,477)	-
Administrative expense	-	(61)	61
Other changes	-	(3)	3
Net changes	39,012	33,961	5,051
Balance at 12/31/2016	167,581	113,865	53,716

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 in	Discount Rate (6.75%)	1% Increase in
	Discount Rate (5.75%)		Discount Rate (7.75%)
City's net pension liability	84,557	53,716	29,278

Pension Plan Fiduciary Net Position

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

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 \$13,180.

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

4. OTHER INFORMATION (Continued)

C. PENSION PLAN (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	-	2,587
Changes in actuarial assumptions	3,757	-
Differences between projected and actual investment earnings	2,367	-
Contributions subsequent to the measurement date	8,374	-
Total	14,498	2,587
Total deferred outflows of resources, net	11,911	

\$8,374 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net Deferred Outflows (Inflows) of Resources
2017	\$ 1,102
2018	1,101
2019	1,022
2020	192
2021	121
Thereafter	-
Total	\$ 3,538

Supplemental Death Benefits 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 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; additionally, retirees are responsible for 100% of the premiums paid for the benefit.

CITY OF NOLANVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

4. OTHER INFORMATION (Continued)

C. PENSION PLAN (Continued)

The city offers supplemental death to:	Plan Year 2016	Plan Year 2015
Active employees	Yes	Yes
Retirees	Yes	Yes

Contributions

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

The City's contributions to the TRMS SDBF for the fiscal years ended 2017, 2016, and 2015 were \$481, \$688, and \$568, respectively, which equaled the required contributions each year.

D. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through March 12, 2018 the date the financial statements were available to be issued. No change to the financial statements for the fiscal year ended September 30, 2017 was deemed necessary as a result of this evaluation.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NOLANVILLE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -
GENERAL FUND
For the Year Ended September 30, 2017

	Budget Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUE				
Property taxes	\$ 989,641	\$ 989,641	\$ 952,346	\$ (37,295)
Sales taxes	212,500	212,500	453,685	241,185
Franchise and other taxes	173,000	173,000	235,355	62,355
Fines	107,000	107,000	74,832	(32,168)
Rental	12,000	12,000	16,524	4,524
Charges for services	63,650	63,650	74,898	11,248
Grants	685,725	685,725	465,100	(220,625)
Interest	6,000	6,000	16,425	10,425
Other	76,009	76,009	16,904	(59,105)
Total Revenue	<u>2,325,525</u>	<u>2,325,525</u>	<u>2,306,069</u>	<u>(19,456)</u>
EXPENDITURES				
General government	421,895	421,895	379,622	42,273
Judicial	102,485	102,485	70,991	31,494
Public safety	458,575	458,575	440,484	18,091
Public works	417,010	417,010	312,535	104,475
Grants	1,229,727	1,229,757	460,087	769,670
Capital outlays	101,000	101,000	258,997	(157,997)
Debt service:				-
Principal	140,000	140,000	170,000	(30,000)
Interest	81,248	81,248	41,569	39,679
Total Expenditures	<u>2,951,940</u>	<u>2,951,970</u>	<u>2,134,285</u>	<u>817,685</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(626,415)	(626,445)	171,784	798,229
OTHER FINANCING SOURCES (USES)				
Refunding bonds issued	-	-	1,945,000	1,945,000
Issuance of bonds	-	-	500,000	500,000
Payment to refunded bonds escrow	-	-	(1,910,544)	(1,910,544)
Bond issuance costs	-	-	(28,165)	(28,165)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>506,291</u>	<u>506,291</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(626,415)	(626,445)	678,075	1,304,520
FUND BALANCE, BEGINNING OF YEAR- AS ADJUSTED	<u>985,624</u>	<u>985,624</u>	<u>985,624</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 359,209</u>	<u>\$ 359,179</u>	<u>\$ 1,663,699</u>	<u>\$ 1,304,520</u>

The accompanying note is an integral part of the Required Supplementary Information.

CITY OF NOLANVILLE, TEXAS
NOTE TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET TO ACTUAL – GENERAL FUND
For the Year Ended September 30, 2017

1. Basis of Presentation:

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 capital outlays are recorded when payment is made.

2. Budget Highlights:

Actual results reflect an excess of revenue over expenditures of \$171,784. The favorable variance of \$798,229 to the budget was primarily attributable to grant and public works expenditures being lower than budgeted. Various other components of revenue and expenses had an off-setting effect.

CITY OF NOLANVILLE, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS -
EMPLOYEES' PENSION PLAN

Measurement Dates

	<u>December 31, 2014</u>	<u>December 31, 2015</u>	<u>December 31, 2016</u>
Total pension liability			
Service cost	\$ 25,471	\$ 29,816	\$ 32,551
Interest (on the Total Pension Liability)	5,770	7,456	9,592
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(3,823)	(3,724)	2,346
Change of assumptions	-	5,929	-
Benefit payments, including refunds of employee contributions	(5,985)	(5,030)	(5,477)
Net Change in Pension Liability	<u>21,433</u>	<u>34,447</u>	<u>39,012</u>
Total Pension Liability - Beginning	<u>72,689</u>	<u>94,122</u>	<u>128,569</u>
Total Pension Liability - Ending (a)	<u>\$ 94,122</u>	<u>\$ 128,569</u>	<u>\$ 167,581</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 4,398	\$ 7,326	\$ 9,340
Contributions - Employee	21,349	23,330	24,735
Net investment income	1,875	80	5,427
Benefit payments, including refunds of employee contributions	(5,985)	(5,030)	(5,477)
Administrative expense	(19)	(49)	(61)
Other	(2)	(2)	(3)
Net Change in Plan Fiduciary Net Position	<u>21,616</u>	<u>25,655</u>	<u>33,961</u>
Plan Fiduciary Net Position - Beginning	<u>32,633</u>	<u>54,249</u>	<u>79,904</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 54,249</u>	<u>\$ 79,904</u>	<u>\$ 113,865</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 39,873</u>	<u>\$ 48,665</u>	<u>\$ 53,716</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	57.64%	62.15%	67.95%
Covered Employee Payroll	\$ 426,976	\$ 466,601	\$ 494,696
Net Pension Liability as a Percentage of Covered Employee Payroll	9.34%	10.43%	10.86%

See accompanying Independent Auditors' Report.

CITY OF NOLANVILLE, TEXAS
SCHEDULE OF CONTRIBUTIONS - EMPLOYEES' PENSION PLAN
Fiscal Years Ended

	<u>September 30,</u> <u>2015</u>	<u>September 30,</u> <u>2016</u>	<u>September 30,</u> <u>2017</u>
Actuarially determined contribution	\$ 6,403	\$ 9,049	\$ 8,374
Contributions in relation to the actuarially determined contribution	<u>\$ 6,403</u>	<u>\$ 9,049</u>	<u>\$ 8,374</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 445,319	\$ 500,850	\$ 508,296
Contributions as a percentage of covered employee payroll	1.44%	1.81%	1.65%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, Closed
Remaining amortization period	27 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary increases	3.5% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes There were no benefit changes during the year.

See accompanying Independent Auditors' Report.

ALTON D. THIELE, P.C.

CERTIFIED PUBLIC ACCOUNTANT

300 E. AVE. C

P.O. BOX 808

BELTON, TX 76513-0808

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

To the Honorable Mayor and Members of the City Council
City of Nolanville, 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 Nolanville, 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 and have issued our report thereon dated March 12, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Alton D. Thiele, PC

Belton, Texas
March 12, 2018

CITY OF NOLANVILLE, TEXAS

COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

FOR THE YEAR ENDING SEPTEMBER 30, 2017

ALTON D. THIELE, P.C.

Certified Public Accountant

300 East Avenue C

P.O. Box 808

Belton, Texas 76513-0808

ALTON D. THIELE, P.C.

Certified Public Accountant
300 East Avenue C
P.O. Box 808
Belton, Texas 76513-00808

March 12, 2018

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nolanville, Texas for the year ended September 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Governmental Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 2, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Nolanville are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was:

Management's estimate of the estimated useful lives of fixed assets is based on historical experience. We evaluated the key factors and assumptions used to develop the lives in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 12, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our response was not a condition of our retention. One matter we would like to mention is as follows:

It was noted while inspecting grant expenses that some grant expenses would get posted to another unrelated grant expense account. While some of these mis-postings were caught and corrected by city staff, others were not. The mis-postings of expenses that remained were reclassified in the audited financial statements with proposed audit adjusting entries. We recommend periodically reconciling the Incode grant expense accounts with the related grant spreadsheet ledgers to make sure transactions are posted to their appropriate accounts.

This information is intended solely for the use of the city council and management of the City of Nolanville, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Alton D. Thiele, P.C.