

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

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INTRODUCTORY SECTION

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**CITY OF SINTON, TEXAS
LIST OF CITY OFFICIALS
SEPTEMBER 30, 2017**

Mayor.....Edward Adams
Mayor Pro-Tem.....Patricia G. Vargas
City Commissioner.....Danny Davila
City CommissionerCheryl Rigotti
City CommissionerNathan Lindeman
City Manager.....John Hobson City
Secretary.....Cathy Duhart

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FINANCIAL SECTION

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members
Of the City Commission
City of Sinton, Texas

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sinton, 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.

Auditors' Responsibility

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

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

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Governmental Audit
Quality Center

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sinton, 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, pension information, and the schedule of funding progress for the other post-employment benefit plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2018, on our consideration of the City of Sinton, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sinton, Texas' internal control over financial reporting and compliance.

Pattillo, Brown & Hill, C.P.A.

Brownsville, Texas
August 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Sinton, Texas, we offer readers of the City of Sinton, Texas' financial statements this narrative overview and analysis of the financial activities of the City of Sinton, Texas for the fiscal year ended September 30, 2017.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the City of Sinton, Texas exceeded its liabilities at the end of the current fiscal year by \$14,231,556 (net assets). Of this amount, \$2,374,061 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets increased by \$170,856. The primary reasons for the increase was the increase in property taxes of \$93,812 and non-property taxes of \$276,161.

As of the close of the current fiscal year, the City of Sinton, Texas' governmental funds reported combined ending fund balances of \$4,957,536 an increase of \$491,450 in comparison with the prior year. Approximately 11 % of this total amount, \$845,960, is available for spending at the government's discretion (unassigned fund balance).

At the end of the current fiscal year, the unassigned fund balance for the general fund was \$845,960 or 21% of total general fund expenditures.

The City of Sinton, Texas' Statement of Net Position total liabilities decreased by \$134,499 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the City of Sinton, Texas' finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City of Sinton, Texas that are principally supported by taxes and intergovernmental revenues {governmental activities} from other functions that are intended to recover all or a significant portion of their costs through user fees and charges {business-type activities}. The governmental activities of the City of Sinton, Texas include general administration, public safety, public transportation, capital projects, and culture and recreation. The business-type activities of the City of Sinton, Texas include a Water and Sewer fund.

The government-wide financial statements include only the City of Sinton, Texas itself (known as the primary government).

The government-wide financial statements can be found on pages 13-15 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 of Sinton, Texas, 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 of Sinton, Texas 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 as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in 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 this comparison between governmental funds and governmental activities.

The City of Sinton, Texas maintains eleven (11) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The general fund and the economic development fund are considered to be major funds. Data from the other nine (9) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The self-insurance fund was created to provide physical damage coverage for accidental damages incurred by City vehicles. Because these services predominantly benefit governmental rather than business-type functions. The fund is presented as a non-major special revenue fund within the governmental funds.

The City of Sinton, Texas adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary funds: The City of Sinton, Texas maintains one proprietary fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Sinton, Texas uses the enterprise fund to account for its Water and Sewer activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility fund which is considered to be a major fund of the City of Sinton, Texas.

The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-56 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Sinton, Texas' progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 59-63 of this report.

The combining statements referred to earlier in connection with non major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 66-73 of this report.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Sinton, Texas, assets exceeded liabilities by \$14,060,123 at the close of the most recent fiscal year.

The largest portion of the City of Sinton, Texas' net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Sinton, Texas uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Sinton, Texas' 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.

CITY OF SINTON, TEXAS – Net Position

	Primary Government			Combined Total 2016
	Governmental	Business	Total 2017	
	Activities	Type Activities		
	2017	2017		
Current and other assets	\$ 5,022,624	\$ 1,898,305	\$ 6,920,929	\$ 6,504,995
Restricted assets	872,986	1,573,751	2,446,737	2,563,642
Capital assets	7,057,020	5,498,509	12,555,529	12,954,618
Deferred outflows of resources pensions	<u>411,829</u>	<u>108,542</u>	<u>520,371</u>	<u>332,187</u>
Total assets and deferred outflows of resources	<u>\$ 13,364,459</u>	<u>\$ 9,079,107</u>	<u>\$ 22,443,566</u>	<u>\$ 22,355,442</u>
Long-term liabilities	3,526,276	1,844,881	5,371,157	6,021,079
Other liabilities	<u>1,179,683</u>	<u>1,502,656</u>	<u>2,682,339</u>	<u>2,166,916</u>
Total liabilities	<u>4,705,959</u>	<u>3,347,537</u>	<u>8,053,496</u>	<u>8,187,995</u>
Deferred inflows related pensions	<u>125,226</u>	<u>33,288</u>	<u>158,514</u>	<u>107,324</u>
Net investment in capital assets	3,607,900	4,044,305	7,652,205	7,499,076
Restricted	4,111,576	93,714	4,205,290	3,912,610
Unrestricted	<u>813,798</u>	<u>1,560,263</u>	<u>2,374,061</u>	<u>2,648,437</u>
Total net position	<u>\$ 8,533,274</u>	<u>\$ 5,698,282</u>	<u>\$ 14,231,556</u>	<u>\$ 14,060,123</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,364,459</u>	<u>\$ 9,079,107</u>	<u>\$ 22,443,566</u>	<u>\$ 22,355,442</u>

An additional portion of the City of Sinton, Texas' net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$2,374,061 may be used to meet the governments on going obligations to citizens and creditors. At the end of the current fiscal year, the City of Sinton, Texas reported a positive balance in the governmental activities and a positive balance in the business-type activities. For the prior fiscal year 2016, the City of Sinton, Texas reported positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

There was an increase of \$299,868 in restricted net assets reported in connection with the City of Sinton, Texas' government-type and business-type activities. This increase resulted mainly from capital expenditures.

The City's governmental total assets increased by \$170,856. The primary reason for the increase is the increase of non-property taxes.

Governmental activities:

CITY OF SINTON, TEXAS – Change in Net Position

	Primary Government		Total 2017	Combined Total 2016
	Governmental	Business		
	Activities 2017	Type Activities 2017		
Program Revenues:				
Charges for Services	\$ 1,048,068	\$ 2,201,541	\$ 3,249,609	\$ 2,968,489
Operating grants and contributions	60,000		60,000	41,196
General revenues:				
Property taxes	1,456,908		1,456,908	1,148,128
Non property taxes	1,399,054		1,399,054	1,122,893
Unrestricted investment earnings	562,682	-	562,682	3,817
Other income	107,368	-	107,368	493,339
Total revenues	4,634,080	2,201,541	6,835,621	5,777,862
Expenses:				
General government	1,279,463		1,279,463	456,231
Public safety	2,142,545		2,142,545	2,360,659
Public works	704,521		704,521	384,408
Health and welfare	61,224		61,224	543,111
Culture and recreation	216,024		216,024	-
Interest and fiscal charges	89,563		89,563	-
Water and sewer services	-	1,995,519	1,995,519	1,759,621
Total expenses	4,493,340	1,995,519	6,488,859	5,504,030
Change to net position before transfers	140,740	206,022	346,762	273,802
Transfers in (out)	415,197	(415,197)	-	(524,951)
Change in net position	555,937	(209,175)	346,762	(251,149)
Net position beginning	7,935,659	6,124,464	14,060,123	13,538,832
Prior period adjustment	256,646	(217,007)	39,639	772,440
Net positions at 09/30/2016-Restated	8,192,305	5,907,457	14,099,762	14,311,272
Net position, ending	\$ 8,748,242	\$ 5,698,282	\$ 14,446,524	\$ 14,060,123

Total governmental and business-type revenues increased by \$597,293 or 10.34 % during the year. Total expenses increased by \$1,201,836 or 21.84%. The largest expense increase was in general government, which increased by \$823,232.

Expenses and Program Revenues - Governmental Activities

Revenues by source - Governmental Activities

	<u>Revenues</u>	<u>Percent</u>
Maintenance and operation taxes	\$ 1,241,940	28.1%
Capital grants and contributions	60,000	1.4%
Sales tax and franchise fees	1,399,054	31.7%
Fees and charges for services	1,048,068	23.7%
Fines and forfeitures	84,740	1.9%
Licenses and permits	18,956	0.4%
Unrestricted investment earnings	3,672	0.1%
Miscellaneous	<u>562,682</u>	<u>12.7%</u>
Total revenues by source	<u>\$ 4,419,112</u>	<u>100.0%</u>

For the most part, increases and decreases in expenses closely paralleled inflation and growth in the demand for services.

Business-type activities:

Expenses from business-type activities of \$2,063,306 exceeded revenues of \$1,956,043 by \$107,263. The increase was related to the increases in water consumption and related demand and to remain compliant with the City's agreement with TCEQ. The expense amount over revenues and transfer out of \$415,197 decreased the City of Sinton, Texas' business-type net assets by \$671,680.

Total expenses increased by \$335,317 or 17.86% as a result of expenses increasing from \$1,877,209 (fiscal year 2016) to \$2,212,526 in the current year. The total expenses of \$2,212,526 includes miscellaneous uses of \$149,220. The increase in expenses closely paralleled inflation and an increase in the demand for services.

Financial Analysis of the Government's Funds:

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

Governmental funds:

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

As of the end of the current fiscal year, the City of Sinton, Texas' governmental funds reported combined ending fund balances of \$4,957,536 an increase of \$491,450 in comparison with the prior year.

Approximately 17.06% or \$845,960 represents the unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted, committed, or non-spendable.

The general fund is the chief operating fund of the City of Sinton, Texas. At the end of the current fiscal year, unassigned and total fund balance of the general fund was \$845,960. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 18.39% of the total general fund expenditures, while total fund balance represents 107% of that same amount.

At the end of the current fiscal year, restricted fund balance of the interest and sinking fund was \$1,123,471. As a measure of the interest and sinking fund's liquidity, it may be useful to compare the total fund balance to total fund expenditures. The total fund balance exceeded total expenditures.

The fund balances of the City of Sinton, Texas' interest and sinking fund increased by \$209,709 during the current fiscal year. Key factors in this decrease are as follows: the continued transfers from the utility fund declined.

At the end of the current fiscal year, the restricted fund balance of the Economic Development Fund's total fund balance was \$2,093,107. As a measure of the economic development fund's liquidity, it may be useful to compare the total fund balance to total fund expenditures. The total fund balance exceeded the total expenditures.

The fund balances of the City of Sinton, Texas' economic development fund increased by \$122,570, during the current fiscal year. This increase was a result of revenues exceeding expenditures and a key factor for the increase in fund balance.

At the end of the current fiscal year, assigned fund balance of the 2014 Tax Note Street Improvement fund decreased from \$98,632 to a deficit \$67,496. There is no analysis of the 2014 Tax Note Street Improvement fund because it is a non-major construction fund.

Proprietary funds:

The City of Sinton, Texas' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Utility fund at the end of the year amounted to \$1,560,263. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Sinton, Texas' business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was no change between the original budget and the final amended budget in the general fund. Overall, actual expenditures in the general fund of \$4,014,454 were more than the budgeted expenditures of \$3,669,577 by \$344,877.

Capital Asset and Debt Administration Capital assets:

The City of Sinton, Texas' investment in capital assets for its governmental and business-type activities as of September 30, 2017, amounts to \$12,555,529 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The City's net investment in capital assets increased by \$153,129, from \$7,499,076 in 2016 to \$7,652,205 current year, or 2.04% increase.

Major capital asset events during the current fiscal year included the following:

The City had minimal street and sewer facility improvements during the prior and current year which were financed by a 2014 bond.

CITY OF SINTON, TEXAS – CAPITAL ASSETS

	Primary Government			Combined Total 2016
	Governmental	Business	Total 2017	
	Activities	Type Activities		
	2017	2017		
Land, water and service rights	\$ 62,250	\$ 4,000	\$ 66,250	\$ 66,250
Construction in progress	-	1,380,700	1,380,700	2,403,273
Buildings and improvements	5,634,366	9,548,368	15,182,734	15,182,734
Machinery, equipment and vehicles	2,604,538	1,207,576	3,812,114	3,686,968
Infrastructure	3,688,635	-	3,688,635	2,666,062
Intangible assets	47,674	13,350	61,024	51,864
Totals at historical cost	12,037,463	12,153,994	24,191,457	24,057,151
Accumulated depreciation	(4,980,443)	(6,655,485)	(11,635,928)	(11,102,532)
Total assets-net of depreciation	<u>\$ 7,057,020</u>	<u>\$ 5,498,509</u>	<u>\$ 12,555,529</u>	<u>\$ 12,954,619</u>

Additional information on the City of Sinton, Texas' capital assets can be found in Notes J and K on pages 39-40 of this report.

Long-term debt:

At the end of the current fiscal year, the City of Sinton, Texas had total bonded debt outstanding of \$3,855,000. This debt comprises debt backed by the full faith and credit of the City of Sinton, Texas..

City of Sinton, Texas – Debt Service

	Governmental	Business	Total 2017	Combined Total 2016
	Activities	Type Activities		
	2017	2017		
Bonds payable and premium	\$1,217,110	\$1,515,907	\$2,733,017	\$2,851,430
Certificate of obligations	905,000	-	905,000	1,065,000
Total debt service	<u>\$ 2,122,110</u>	<u>\$ 1,515,907</u>	<u>\$ 3,638,017</u>	<u>\$ 3,916,430</u>

The City of Sinton, Texas' total debt decreased by \$278,413 or 7.11% during the current fiscal year.

The City of Sinton, Texas and its Utility fund both maintain an "AA" rating from Standard & Poor's and Fitch and an "AA2" rating from Moody's for general obligation debt. State statutes limit the amount of general obligation debt a governmental entity may issue to 25 percent of its total assessed valuation. The current debt limitation for the City of Sinton, Texas is \$46,961,472, which is significantly in excess of the City of Sinton, Texas' outstanding general obligation debt. Additional information on the City of Sinton, Texas' long-term debt can be found in Note L on pages 40 - 42 of this report.

Request for Information

This financial report is designed to provide a general overview of the City of Sinton, Texas' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Department, P.O. Box 1395, Sinton, Texas, 78387.

BASIC FINANCIAL STATEMENTS

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 4,239,313	\$ 1,585,911	\$ 5,825,224
Receivables, net	524,820	277,535	802,355
Prepaid expenses	22,548	-	22,548
Restricted cash and cash equivalents	872,986	1,573,751	2,446,737
Internal balances	235,943	-	235,943
Inventory	-	34,859	34,859
Capital assets, net of accumulated depreciation:			
Non-depreciable assets	62,250	-	62,250
Depreciable assets	6,994,770	5,498,509	12,493,279
Total assets	<u>12,952,630</u>	<u>8,970,565</u>	<u>21,923,195</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	-	-
Deferred outflows related to pensions	411,829	108,542	520,371
Total deferred outflow of resources	<u>411,829</u>	<u>108,542</u>	<u>520,371</u>
LIABILITIES			
Accounts payable	153,448	187,310	340,758
Accrued liabilities	108,418	32,117	140,535
Customer deposits payable	-	269,090	269,090
Due to other funds	-	235,943	235,943
Unearned revenue	540,132	701,574	1,241,706
Noncurrent liabilities:			
Due within one year	162,717	76,622	239,339
Due in more than one year	3,526,276	1,844,881	5,371,157
Total liabilities	<u>4,490,991</u>	<u>3,347,537</u>	<u>7,838,528</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	125,226	33,288	158,514
Total deferred inflows of resources	<u>125,226</u>	<u>33,288</u>	<u>158,514</u>
NET POSITION			
Net investment in capital assets	3,607,900	4,044,305	7,652,205
Restricted for:			
Capital Projects	344,057	-	344,057
Special revenue funds	550,941	-	550,941
Debt service	1,123,471	93,714	1,217,185
Community development	2,093,107	-	2,093,107
Unrestricted(deficit)	1,028,766	1,560,263	2,589,029
Total net position	<u>\$ 8,748,242</u>	<u>\$ 5,698,282</u>	<u>\$ 14,446,524</u>

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

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

<u>Function/Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Primary government			
Governmental activities:			
General government	\$ 1,279,463	\$ 72,583	\$ 60,000
Public safety	2,142,545	857,515	-
Public works	704,521	100,771	-
Health and welfare	61,224	-	-
Culture and recreation	216,024	17,199	-
Interest and fiscal agent fees	<u>89,563</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>4,493,340</u>	<u>1,048,068</u>	<u>60,000</u>
Business-type activities:			
Water & sewer services	<u>1,846,299</u>	<u>2,201,541</u>	-
Total business-type activities	<u>1,846,299</u>	<u>2,201,541</u>	<u>-</u>
Total primary government	<u>\$ 6,339,639</u>	<u>\$ 3,249,609</u>	<u>\$ 60,000</u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Sales and franchise taxes

Licenses and permits

Hotel/motel taxes

Unrestricted investment earning

Miscellaneous revenues (uses)

Transfers

Total general revenues and transfers

Changes in net position

Net position-beginning

Prior period adjustment

Net position-ending

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

Net (Expense) Revenues and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$(1,146,880)	\$ -	\$(1,146,880)
(1,285,030)	-	(1,285,030)
(603,750)	-	(603,750)
(61,224)	-	(61,224)
(198,825)	-	(198,825)
(89,563)	-	(89,563)
<u>(3,385,272)</u>	<u>-</u>	<u>(3,385,272)</u>
-	355,242	355,242
-	355,242	355,242
<u>(3,385,272)</u>	<u>355,242</u>	<u>(3,030,030)</u>
1,456,908	-	1,456,908
1,399,054	-	1,399,054
18,956	-	18,956
84,740	-	84,740
3,672	-	3,672
562,682	(149,220)	413,462
415,197	(415,197)	-
<u>3,941,209</u>	<u>(564,417)</u>	<u>3,376,792</u>
555,937	(209,175)	346,762
7,935,659	6,124,464	14,060,123
<u>256,646</u>	<u>(217,007)</u>	<u>39,639</u>
<u>\$ 8,748,242</u>	<u>\$ 5,698,282</u>	<u>\$ 14,446,524</u>

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

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

	General	Economic Development Fund	Other Governmental	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,283,251	\$ 2,093,107	\$ 862,955	\$ 4,239,313
Receivables, net:				
Property taxes	158,902	-	-	158,902
Accounts receivable	365,918	-	-	365,918
Due from other funds	-	-	432,637	432,637
Inventory	22,548	-	-	-
Restricted cash and cash equivalents	-	-	872,986	872,986
Total assets	\$ 1,830,619	\$ 2,093,107	\$ 2,168,578	\$ 6,092,304
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE				
Liabilities:				
Accounts payable	26,438	\$ -	\$ 127,010	\$ 153,448
Accrued liabilities	6,427	-	23,099	29,526
Unearned revenue	540,132	-	-	540,132
Due to other funds	196,694	-	-	196,694
Total liabilities	769,691	-	150,109	919,800
Deferred inflows of resources				
Unavailable revenue - property taxes	214,968	-	-	214,968
Total deferred inflows of resources	214,968	-	-	214,968
Fund balances:				
Restricted	-	2,093,107	2,018,469	4,111,576
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	845,960	-	-	845,960
Total fund balances	845,960	2,093,107	2,018,469	4,957,536
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,830,619	\$ 2,093,107	\$ 2,168,578	\$ 6,092,304

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

CITY OF SINTON, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

Fund balances	\$	4,957,536
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 funds		7,057,020
Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds - these result from unavailable property tax revenues		214,968
Long-term liabilities applicable to the City's governmental activities are not due and payables in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term are reported in the statement of net position. Bond premiums and discounts are also included and are amortized as an adjustment of interest expense in the statement of activities over the remaining life of the debt.	(2,202,493)
Interest is accrued in the government-wide financial statements but not in the funds.	(78,892)
Included in the noncurrent assets/(liability) is the recognition of the City's net pension asset/(liability), and a deferred resource outflows. This resulted in an increased/(decrease) in net position.	(1,171,238)
Included in the noncurrent assets/(liability) is the recognition of the Firemen's net pension asset/(liability) required by GASB 68 in the amount of \$32,162 and a deferred resource outflows of \$3,503. This resulted in a net decrease in net position.	(<u>28,659</u>)
Net position	\$	<u><u>8,748,242</u></u>

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

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

	General	Economic Development Fund	Other Governmental	Total Governmental Funds
REVENUES				
Property taxes	\$ 1,241,940	\$ -	\$ -	\$ 1,241,940
Sales and franchise taxes	910,374	394,040	94,640	1,399,054
Fees and charges for services	976,442	71,626	-	1,048,068
Fines and forfeitures	84,740	-	-	84,740
Licenses and permits	18,956	-	-	18,956
Intergovernmental	60,000	-	-	60,000
Miscellaneous income	539,408	-	23,273	562,681
Interest and investment income	794	764	2,114	3,672
Total revenues	<u>3,832,654</u>	<u>466,430</u>	<u>120,027</u>	<u>4,419,111</u>
EXPENDITURES				
Current:				
General government	916,879	141,697	199,539	1,258,115
Public safety	2,004,666	-	41,651	2,046,317
Public works	684,880	-	-	684,880
Health and welfare	59,517	-	-	59,517
Culture and recreation	209,999	-	-	209,999
Capital outlay	37,485	-	-	37,485
Debt service:				
Principal retirement	53,628	160,000	-	213,628
Interest and fiscal agent fees	47,400	42,163	-	89,563
Total expenditures	<u>4,014,454</u>	<u>343,860</u>	<u>241,190</u>	<u>4,599,504</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(181,800)</u>	<u>122,570</u>	<u>(121,163)</u>	<u>(180,393)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	415,197	-	-	415,197
Total other financing sources (uses)	<u>415,197</u>	<u>-</u>	<u>-</u>	<u>415,197</u>
NET CHANGE IN FUND BALANCES	233,397	122,570	(121,163)	234,804
FUND BALANCES, BEGINNING	<u>565,626</u>	<u>1,970,537</u>	<u>1,929,923</u>	<u>4,466,086</u>
PRIOR PERIOD ADJUSTMENT	<u>46,937</u>	<u>-</u>	<u>209,709</u>	<u>256,646</u>
FUND BALANCES, ENDING	<u>\$ 845,960</u>	<u>\$ 2,093,107</u>	<u>\$ 2,018,469</u>	<u>\$ 4,957,536</u>

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

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CITY OF SINTON, TEXAS

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

Net change in fund balances - total governmental funds	\$ 234,804
Amounts reported for governmental activities in the statement of activities are different	
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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(287,404)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	214,968
Bond premiums, discounts and insurance are recognized in the funds in the year the bonds are sold, but they are amortized over the life of the bonds in the statement of activities. The deferred charge on a refunding is also recorded only in the statement of net position and amortized. This is the net amount of the current year amortization of these bond related items.	1,546
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Interest expense in the statement of activities differs from the amount reported in governmental funds due to the change in accrued interest (decrease of \$78,892) being calculated for bonds payable. Also any change in compensated absence payable (decrease of \$12,949) during the year is reported as an increase or decrease to expenditures in the statement of activities but not in the governmental funds.	(91,841)
Repayment of bond and notes payable principal is an expenditure in the governmental funds, but the repayment has no effect on net position.	212,082
Some pension-related expenses reported in the governmental activities statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>271,782</u>
Change in net position of governmental activities	<u>\$ 555,937</u>

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

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CITY OF SINTON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2017

	Business-type Activities	
	Water and Sewer	Total Enterprise Funds
ASSETS		
Current assets:		
Cash and investments	\$ 1,585,911	\$ 1,585,911
Receivables:		
Accounts receivable	277,535	277,535
Inventory	34,859	34,859
Restricted cash and cash equivalents	1,573,751	1,573,751
Total current assets	3,472,056	3,472,056
Noncurrent assets:		
Land, plant and equipment, net	5,498,509	5,498,509
Total noncurrent assets	5,498,509	5,498,509
Total assets	8,970,565	8,970,565
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on debt refunding		
	-	-
Deferred outflows related to pensions		
	108,542	108,542
Total deferred outflows of resources	108,542	108,542
LIABILITIES		
Current liabilities:		
Accounts payable	187,310	187,310
Accrued liabilities	32,117	32,117
Due to other funds	235,943	235,943
Compensated absences	6,325	6,325
Customer deposits payable	269,090	269,090
Deferred revenues	701,574	701,574
Bonds payable	66,000	66,000
Notes payable-TCEQ	4,297	4,297
Total current liabilities	1,502,656	1,502,656
Noncurrent liabilities:		
Compensated absences	8,378	8,378
Bonds payable	1,449,907	1,449,907
Net pension liability	386,596	386,596
Total noncurrent liabilities	1,844,881	1,844,881
Total liabilities	3,347,537	3,347,537
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions		
	33,288	33,288
Total deferred inflows of resources	33,288	33,288
NET POSITION		
Net investment in capital assets	4,044,305	4,044,305
Restricted for debt service	93,714	93,714
Unrestricted	1,560,263	1,560,263
Total net position	\$ 5,698,282	\$ 5,698,282

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

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

	Business-type Activities	
	Water and Sewer	Total
OPERATING REVENUES		
Water and sewer	\$ 2,133,187	\$ 2,133,187
Penalties	67,276	67,276
Investment earnings	1,078	1,078
Total operating revenues	2,201,541	2,201,541
OPERATING EXPENSES		
Personnel and related services	729,004	729,004
Contracted services	380,177	380,177
Materials, supplies and repairs	414,557	414,557
Other expenses	105,554	105,554
Depreciation expense	217,007	217,007
Total operating expenses	1,846,299	1,846,299
OPERATING INCOME (LOSS)	355,242	355,242
NONOPERATING REVENUES (EXPENSES)		
Bond principal payment	(74,131)	(74,131)
Interest expense	(49,125)	(49,125)
Bond insurance	(47,899)	(47,899)
Miscellaneous revenue	21,935	21,935
Total nonoperating revenues (expenses)	(149,220)	(149,220)
Income before transfers	206,022	206,022
Capital contributions		
Transfers in	-	-
Transfers out	(415,197)	(415,197)
CHANGE IN NET POSITION	(209,175)	(209,175)
NET POSITION, BEGINNING	6,124,464	6,124,464
PRIOR PERIOD ADJUSTMENT	(217,007)	(217,007)
NET POSITION, ENDING	\$ 5,698,282	\$ 5,698,282

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

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CITY OF SINTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	Business-type Activities Enterprise Fund	
	Water and Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 2,120,167	\$ 2,120,167
Cash received from other resources	21,936	21,936
Disbursed for goods and services to suppliers	(728,909)	(728,909)
Disbursed for personnel services	(980,406)	(980,406)
Net cash provided by operating activities	432,788	432,788
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(415,197)	(415,197)
Net cash provided (used) by noncapital financing activities	(415,197)	(415,197)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
RELATED FINANCING ACTIVITIES		
Disposal of capital assets	-	-
Principal paid on long-term debt	(74,131)	(74,131)
Interest and bond costs paid on long-term debt	(97,024)	(97,024)
Net cash used for capital and related financing activities	(171,155)	(171,155)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,078	1,078
Net cash provided by investing activities	1,078	1,078
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(152,486)	(152,486)
CASH AND CASH EQUIVALENTS, BEGINNING	3,312,148	3,312,148
CASH AND CASH EQUIVALENTS, ENDING	\$ 3,159,662	\$ 3,159,662
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 355,242	\$ 355,242
Adjustments to reconcile operating income to net cash provided by operating activities:		
Prior period adjustment	(217,007)	(217,007)
Depreciation	217,007	217,007
Decrease (increase) in accounts receivable	6,745	6,745
Decrease (increase) in other assets	(105,320)	(105,320)
Decrease (increase) in deferred outflows-pension	(38,783)	(38,783)
Increase (decrease) in accounts payable	90,354	90,354
Increase (decrease) in customer deposits	11,475	11,475
Increase (decrease) in accrued liabilities	84,623	84,623
Increase in customer deposits	(10,236)	(10,236)
Increase (decrease) in net pension liability	(35,511)	(35,511)
Increase (decrease) in deferred inflows-pension	72,145	72,145
Increase (decrease) in compensated absences	2,054	2,054
Total adjustments	77,546	77,546
Net cash provided by operating activities	\$ 432,788	\$ 432,788

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

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CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Sinton, Texas (the "City"), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

1. REPORTING ENTITY

The City of Sinton, Texas, was incorporated by an election held on March 1, 1916. The City operates under a charter, Manager-Council type of government and provides the following services: public safety (fire, ambulance, and law enforcement), public transportation (streets), health, culture, recreation, public facilities, legal, election functions, and general administrative services. The accounting policies of the City of Sinton, Texas, and ("the City") conform to generally accepted accounting principles. The City also applies all relevant Government Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies.

2. BLENDED COMPONENT UNIT

The accompanying financial statements include financial statements for related organizations in accordance with generally accepted accounting principles. Organizations are included if they are financially accountable to the City, or the nature and significance of their relationship with the City are such that exclusion would cause the financial statements to be misleading or incomplete. Inclusion is determined on the basis of the City's ability to exercise significant influence. Significant influence or accountability is based primarily on its operational or financial relationship with the City (as distinct from legal relationship). The City is financially accountable if it appoints a voting majority of an organization's governing body and is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City.

The Sinton Economic Development Corporation is governed by a board appointed by the City Council who has the ability to impose their will on the Sinton Economic Development Corporation. Although they are legally separate from the City, the Sinton Economic Development Corporation is reported as if they are a part of the primary government because their primary purpose is to provide services to the citizens of the City. This entity is presented as a blended component unit and major governmental fund. The City currently has operational responsibilities for this component unit. The entity has a September 30 year-end and does not issue separate financial statements.

3. GOVERNMENT-WIDE AND FUND 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 primary government and its component units. As a general rule, the effect of interfund activity has been removed from the primary government 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. Likewise, the primary government is reported separately from certain separate component units for which the primary government is financially accountable.

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

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.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary fund are reported as separate columns in the fund financial statements.

4. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if 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 and claims and judgments, are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes and franchise taxes, special assessments, interest revenue and charges for services. Sales taxes collected and held by the intermediary collecting governments at year-end on behalf of the City also are recognized as revenue. Fines, permits and licenses revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The following are reported as major governmental funds:

General Fund – This is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The following are reported as other nonmajor governmental fund types:

Debt Service Fund – This fund accounts for the resources accumulated and payments made for principal and interest on long-term tax supportable general obligation debt of the primary government.

Capital Projects Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources (other than private purpose trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

The following are reported as major proprietary funds:

Water and Sewer Fund – This fund accounts for the water and sewer services provided to customers. All the capital assets net of related liabilities, along with revenues and expenses of providing these services are accounted for within this fund.

The following are reported as fiduciary fund types:

Firemen's Pension Fund – This fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes in a fiduciary (trustee) capacity for individuals, private organizations, and other governments.

As a general rule the effect of interfund activity has been eliminated from the primary government's government-wide financial statements. The exception to this general rule are the charges for water and sewer services to the other primary government funds and payment-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, 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 generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary 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.

Both the government-wide and proprietary fund financial statements apply all applicable GASB pronouncements.

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

5. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION OR EQUITY

Deposits and Investments

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

Money market investments which are short-term, highly liquid debt instruments including commercial paper, banker's acceptances and U.S. Treasury and agency obligations are reported at amortized cost.

The City can legally invest in adequately secured investments in accordance with the Public Funds Investment Act. The City may also participate in any public funds investment pool created under the Interlocal Cooperation Act. Investment in external pools are reported at amortized cost for financial reporting purposes

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION OR EQUITY (Continued)

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax and Emergency Medical Services (EMS) receivable allowance is equal to approximately .77% of current outstanding property taxes and EMS receivable at September 30, 2017.

Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets of the Proprietary Funds and EDC-4A, EDC-4B Component Units

Water and sewer bond ordinances and EDC-4A and EDC-4B component units' ordinances require that during the period the bonds are outstanding the City must maintain certain separate accounts and funds to account for the proceeds from the issuance of the bonds and the debt service deposits made from revenues or from bond proceeds. These restricted assets can be used only in accordance with the bond ordinances.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION OR EQUITY (Continued)

Restricted Assets

The restricted assets at September 30, 2017 were as follows:

	Governmental Activities	Business Type Activities	Total
Debt Service	\$ 1,123,471	\$ 93,714	\$ 1,217,185
Community development	2,093,107		2,093,107
Special revenue	550,941	-	550,941
Capital projects	<u>344,057</u>	<u>-</u>	<u>344,057</u>
Total Restricted Assets	<u>\$ 4,111,576</u>	<u>\$ 93,714</u>	<u>\$ 4,205,290</u>

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City had street improvements and sewer facility improvements during the year which were financed by a 2014 bond. Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Estimated Useful Lives

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION OR EQUITY (Continued)

Depreciation of capital assets used by proprietary funds is charged as an expense against their operations in the fund financial statements as well as the business-type activities in government-wide Statement of Activities. Capital assets, net of accumulated depreciation, are reported on proprietary funds Statement of Net Position and in the business-type activities column of the government-wide Statement of Net Position.

Depreciation of general government capital assets used by funds categorized as governmental activities is not allowed in the governmental fund financial statements, nor are the capital assets allowed to be reported on the balance sheets in the governmental fund financial statements in connection with their measurement focus. Depreciation of general government capital assets used by funds categorized as governmental activities in the government-wide Statement of Activities is required. Capital assets, net of accumulated depreciation, are required to be reported in the governmental activities column of the government-wide Statement of Net Position.

The EDC 4A and EDC 4B component units have depreciable capital assets. Depreciation expense is required in the government-wide Statement of Activities. Capital assets are reported for these component units in the government-wide Statement of Net Position.

Depreciable Assets Useful Lives

Building	50 years
Improvements other than buildings	20 years
Infrastructure	10-90 years
Furniture and equipment	5-15 years

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, and proprietary fund financial statements. Compensated absences are reported in the governmental funds only if they have matured with respect to terminated employees who have an unpaid balance of reimbursable unused leave. A liability for these amounts is reported in governmental funds.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION OR EQUITY (Continued)

Fund Balances Reporting

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes.

There are two major categories of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and long-term receivables. The City has inventories and long-term advances to funds that are considered nonspendable.

In addition to the nonspendable fund balance, there is a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

Restricted - Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

Committed - Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the City Council. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action.

Assigned — Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The responsibility to assign funds rests with the City Council. The City does not have any assigned fund balances. Unlike commitments, assignments generally only exist temporarily. An additional action does not have to be taken for the removal of an assignment.

Unassigned — Fund balance is not constrained for any particular purpose.

Fund Balances as of September 30, 2017

Fund Balances:	
Restricted	
Capital projects	\$ 344,057
Special revenue	550,941
Community development	2,093,107
Debt Service	1,123,471
Unassigned	<u>813,798</u>
Total Fund Balance	<u>\$ 4,925,374</u>

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION OR EQUITY (Continued)

Fund Balance Flow Assumptions

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council or the finance committee has provided otherwise in its commitment or assignment actions. In fiscal year 2011, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year end to be at least equal to 20% to 25% of the subsequent year's budgeted General Fund expenditures. The City's unassigned fund balance was approximately 30%.

Deferred Outflows of Resources and Deferred Inflows of Resources/Other Assets and Liabilities

Certain defined transactions that do not qualify for treatment as either assets or liabilities are required to be accounted for and reported as either deferred outflows of resources (a separate subheading following assets, but before liabilities) or deferred inflows of resources (a separate subheading following liabilities, but before equity).

Deferred Outflows of Resources — A consumption of net assets by the government that is applicable to a future reporting period and so will not be recognized as an outflow of resources (expenditure/expenses) until then. It has a positive effect on net position, similar to assets.

Deferred Inflows of Resources — An acquisition of net assets by the government that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities.

In the government-wide financial statements, insurance costs arising from the issuance of debt are expensed. Deferred amounts from a refunding of debt (debits) are reported as deferred outflows of resources and deferred amounts from refunding debt (credits) are reported as deferred inflows of resources and amortized over the lesser life of the refunded bonds or refunding debt.

Grant amounts received in advance of meeting timing requirements and advances of revenue from imposed non-exchange transactions such as property taxes or transactions recorded as a receivable prior to the period when resources are required to be used or are available, are reported as deferred inflows of resources at the fund level and are recognized as revenues at the government-wide level.

See below, Pensions regarding pension-related deferred outflows and deferred inflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION OR EQUITY (Continued)

Pensions

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting, regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The City recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the pension plan measured as of the actuarial measurement date. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1. BUDGETARY INFORMATION

The City Manager has been authorized by the council to prepare the budget. He is assisted by the City's Finance Director and City Secretary. The budget is adopted on budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council. The budget is adjusted by the City Council if desired. Then a final budget is prepared by the City Manager. A public hearing is held on the budget by the City Council. Department heads may appear. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. Amounts finally budgeted may not exceed the estimate of revenues and available cash. Appropriations lapse at year end.

The General fund is the only governmental fund that has legally adopted an annual budget.

When the budget is adopted by the City Council, the City Manager are responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the department. Expenditures can exceed appropriations as long as they do not exceed available revenues and cash balances. The legal level of control (the level on which the City Council must approve over expenditures) is at the department level.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The City council made several supplemental budgetary appropriations throughout the year. The supplemental budgetary appropriations made in the general fund were not material.

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

NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1. BUDGETARY INFORMATION (CONTINUED)

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. There were no outstanding encumbrances at September 30, 2017.

Excess of Expenditures Over Appropriations

There was no change between the original budget and the final amended budget in the general fund. During the year ended September 30, 2017, expenditures exceeded appropriations as follows in the General Fund.

<u>Department</u>	<u>General Fund Excess of Expenditures Over Appropriation</u>
City commission and management	\$ 1,776
Fire	5,777
Street maintenance	54,967
Parks and recreation	32,366
Animal control	5,573
Public library	4,809
Debt service	101,028
	\$ 206,296

2. DEFICIT FUND EQUITY

At September 30, 2017, the Tax Note Series 2014 fund has a deficit fund balance of \$67,496. The City is and will continue monitoring its progress to ensure it maintains an acceptable or positive balance or complete elimination of this deficit. The City had no deficit fund balances as of September 30, 2017.

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE C – DEPOSITS AND INVESTMENTS

1. PRIMARY GOVERNMENT

Deposits

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits, excluding the amount covered by Federal Deposit Insurance Corporation insurance. The City's deposits were fully insured as required by State statutes at September 30, 2017.

Legal and Contractual Provisions Governing Deposits and Investments:

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, (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 not in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a formal policy for custodial credit risk. As of September 30, 2017, the City's bank balance of \$7,249,720 was not exposed to custodial credit risk because it was fully insured and collateralized with securities held by the pledging financial institution's trust department or agent, in the City's name. The fair market value of the securities pledged is \$10,253,803 and the FDIC coverage is \$250,000. The book amount of cash at September 30, 2017 is \$8,271,961.

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE C – DEPOSITS AND INVESTMENTS

1. PRIMARY GOVERNMENT

Policies Governing Deposits and Investments (Continued)

At September 30, 2017, the carrying amount of the City’s deposits with financial institutions was \$6,186,731 and the bank balance was \$5,156,381. Bank balances of the City were covered by federal deposit insurance or were secured by collateral held by the City’s agent in the City’s name pursuant to the City’s Investment Policy and its Depository Agreement.

Custodial Credit Risk- Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the City’s name. The City’s cash deposits at September 30, 2017 and during the year ended September 30, 2017 were covered by federal deposit insurance or were secured by collateral held by the City’s agent in the City’s name pursuant to the City’s Investment Policy and its Depository Agreement.

2. COMPONENT UNITS

Deposits for EDC-4A and EDC-4B are held separately from those of the City's funds. At September 30, 2017, the reported amount of deposits for EDC-4A totaled \$952,829, and the bank balances totaled \$952,944. The reported deposits for EDC-4B totaled \$1,140,278 and the bank balances totaled \$1,140,395.

At September 30, 2017, DEDC-4A and DCD-4B deposits were each covered by federal deposit insurance or were secured by collateral held by the component unit’s agent in the component unit’s name.

Reconciliation

The meaning of “investments” in this note may differ from the meaning of the caption “investments” in the basic financial statements. A reconciliation of cash and cash equivalents as shown on the Statement of Net Position is as follows:

	<u>Primary Government</u>		Total
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Cash on hand	\$ 4,239,313	\$ 1,585,911	\$ 5,825,224
Total Cash and cash equivalents	4,239,313	1,585,911	5,825,224
Cash and cash equivalents - restricted	-	2,446,737	2,446,737
Cash/cash equivalents Statement of Net Position	<u>\$ 4,239,313</u>	<u>\$ 4,032,648</u>	<u>\$ 8,271,961</u>

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE D – PROPERTY TAXES

The City's property tax is levied each October 1, on the assessed value listed as of the prior January 1 for all real and business personal property in the City in conformity with Subtitle E, Texas Property Code. Assessed values are an approximation of market values. A receivable for property taxes is recognized and recorded at the levy date. The adjusted assessed value for the roll as of October 1, 2016, upon which the 2017 levy was based, was \$187,845,886.

Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. No discounts are offered. During the fiscal year, 91% of the current year tax levy (October 1, 2016) was collected. The statutory lien date is January 1.

Taxes are prorated between general and debt service funds based on rates adopted for the year of the levy.

The methods of property assessment and tax collection are determined by Texas statute. The statutes provide for a property tax code, county-wide appraisal districts and certain exemptions from taxation, such as intangible personal property, household goods and family-owned automobiles.

The appraisal of property within the City is the responsibility of the San Patricio County Appraisal District. The San Patricio County Appraisal District is required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its appraised value.

The tax rate to finance general governmental purposes, other than the payment of principal and interest on tax supported general obligation long-term debt, for the year ended September 30, 2017, was \$.560752 per \$100 assessed valuation. The tax rate for debt service on the principal and interest requirements on general obligation long-term debt, for the year ended September 30, 2017, was \$.114294 per \$100 of assessed valuation. The combined tax rate for the City is \$.675046 per \$100 of assessed valuation. The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy up to \$2.50 per \$100 of assessed valuation for general governmental purposes, including the payment of principal and interest on general obligation long-term debt.

On the modified accrual basis, property taxes that are measurable and available (receivable within the current period and collected within the current period or within 60 days thereafter to be used to pay liabilities of the current period) are recognized as revenue in the year of the levy. Property taxes that are measurable, but not available, are recorded, net of estimated uncollectible amounts, as deferred inflows of resources in the year of levy. Such deferred inflows are recognized as revenue in the fiscal year in which they become available.

Funds of the business-activity and economic development corporations are held in respective accounts and City policy.

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

NOTE E – RECEIVABLES

1. PRIMARY GOVERNMENT

Receivables

Receivables as of year end for the City's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Business- type Activities	Total
<u>Receivables</u>			
Property Taxes	\$ 158,902	\$ -	\$ 158,902
Accounts receivable	2,411,688	308,554	2,720,242
Account-San Patricio Count	29,842	-	29,842
Other	<u>4,744</u>	<u>150</u>	<u>4,894</u>
Gross Receivables	2,605,176	308,704	2,913,880
Less: Allowance for Uncollectables	<u>(2,080,356)</u>	<u>(31,169)</u>	<u>(2,111,525)</u>
Net Total Receivables	<u>\$ 524,820</u>	<u>\$ 277,535</u>	<u>\$ 802,355</u>

NOTE F – UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the City reported \$540,132 in unearned revenue for the governmental activities, and \$701,574 in the business-type activities.

NOTE G - DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The statement of net position reports deferred outflows in connection to the consumption of net position that applies to a future period. As of September 30, 2017 the various components of deferred outflows of resources are as follows:

	Governmental Activities	Business-type Activities
Deferred Resources		
Deferred outflows related to City's pension	\$ 408,326	\$ 108,541
Deferred outflows related to firemen's pension	<u>3,503</u>	<u>-</u>
Total deferred outflows of resources	<u>\$ 411,829</u>	<u>\$ 108,541</u>

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

NOTE G – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

At the fund level financial statements, the City has the following deferred inflows of resources:

Deferred Resources	Governmental Activities
Deferred inflows related to City's pension	\$ 125,226
Deferred inflows related to firemen's pension	-
Total deferred inflows of resources	\$ 125,226

NOTE H – INTERFUND ASSETS/LIABILITIES

Interfund receivable and payable balances at September 30, 2017 were as follows.

	Due from Other Funds	Due to Other Funds
<u>Special Revenue</u>		
Enterprise Fund	\$ 5,912	\$ -
Total Special Revenue	5,912	-
 <u>Debt Service Fund</u>		
General Fund	196,694	196,694
Enterprise Fund	230,031	-
Total Debt Service Fund	426,725	196,694
 <u>Enterprise Fund</u>		
2014 Street Improvement		5,912
Debt Service Fund	-	230,031
Total Enterprise Fund	-	235,943
Total	\$ 432,637	\$ 432,637

The balances generally result from a routine lag between the dates that transactions are recorded in the accounting system and payments between the funds are made. All amounts are scheduled to be repaid within one year.

Certain interfund loans were not expected to be repaid within the next year. These loans are reported as long-term advances. The following advances were made to sustain operations of the City International Bridge Fund, which did not generate revenues to meet operating and debt obligations.

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

NOTE I – TRANSFERS

Inter-fund transfers during the year were as follows.

ACCOUNT	AMOUNT
General fund	
Transfer from Water/Sewer Fund	\$ 415,197
Water/Sewer Fund	
Transfer to General Fund	(415,197)
	\$ -

Transfers were used primarily to 1) move funds from the General Fund to the Water and Sewer Fund, or 2) to move funds from Water and Sewer to the General Fund. All of the transfers were recurring.

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE J – CAPITAL ASSETS

1. PRIMARY GOVERNMENT

Capital asset activity for the year ended September 30, 2017 was as follows:

Governmental Activities:	Beginning			Ending
Capital assets not being depreciated:	Balances	Increases	Decreases	Balances
Land	\$ 62,250	\$ -	\$ -	\$ 62,250
Construction in Progress	1,022,573	-	1,022,573	-
Total capital assets not being depreciated	<u>1,084,823</u>	<u>-</u>	<u>1,022,573</u>	<u>62,250</u>
Capital assets being depreciated:				
Building and improvements	5,634,366	-	-	5,634,366
Machinery, Equipment and Vehicles	2,577,553	35,485	8,500	2,604,538
Infrastructure	2,666,062	1,022,573	-	3,688,635
Intangible Assets	45,674	2,000	-	47,674
Total capital assets being depreciated:	<u>10,923,655</u>	<u>1,060,058</u>	<u>8,500</u>	<u>11,975,213</u>
Less: Accumulated Depreciation for:				
Building and Improvements	1,646,330	133,037	-	1,779,367
Machinery, Equipment and Vehicles	2,312,893	138,061	8,500	2,442,454
Infrastructure	680,597	48,031	-	728,628
Intangible Assets	24,234	5,760	-	29,994
Total Accumulated Depreciation	<u>4,664,054</u>	<u>324,889</u>	<u>8,500</u>	<u>4,980,443</u>
Total Capital Assets Depreciated, Net	<u>6,259,601</u>	<u>735,169</u>	<u>-</u>	<u>6,994,770</u>
Governmental Activities capital assets, Net	<u>\$ 7,344,424</u>	<u>\$ 735,169</u>	<u>\$ 1,022,573</u>	<u>\$ 7,057,020</u>

Depreciation was charged to Government functions as follows:

Governmental Activities	
General Administration	\$ 84,303
Public Safety	164,117
Public Transportation	54,874
Health and welfare	4,769
Culture and Recreation	16,826
Total Depreciation Expense - Governmental Activities	<u>\$ 324,889</u>
Business - Type Activities	
Water and Sewer	\$ 217,007
Total Depreciation Expense - Business - Type Activities	<u>\$ 217,007</u>

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

NOTE K – CAPITAL ASSETS

1. PRIMARY GOVERNMENT (CONTINUED)

Business-Type Activities:	Beginning			Ending
Capital assets not being depreciated:	Balances	Increases	Decreases	Balances
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Construction in Progress	1,380,700	-	-	1,380,700
Total capital assets not being depreciated:	<u>1,384,700</u>	<u>-</u>	<u>-</u>	<u>1,384,700</u>
Capital assets being depreciated:				
Building and Improvements	9,548,368	-	-	9,548,368
Machinery, Equipment and Vehicles	1,109,415	98,161	-	1,207,576
Intangible Assets	6,190	7,160	-	13,350
Total capital assets being depreciated	<u>10,663,973</u>	<u>105,321</u>	<u>-</u>	<u>10,769,294</u>
Less: Accumulated Depreciation for:				
Building and Improvements	5,389,987	164,541	-	5,554,528
Machinery, Equipment and Vehicles	1,042,301	51,034	-	1,093,335
Intangible Assets	6,190	1,432	-	7,622
Total Accumulated Depreciation	<u>6,438,478</u>	<u>217,007</u>	<u>-</u>	<u>6,655,485</u>
Total Capital Assets Depreciated, Net	<u>4,225,495</u>	<u>(111,686)</u>	<u>-</u>	<u>4,113,809</u>
Business- Type Activities Capital Assets, Net	<u>\$ 5,610,195</u>	<u>\$ (111,686)</u>	<u>\$ -</u>	<u>\$ 5,498,509</u>

Construction during the year: The City had street improvements and sewer facility improvements during the year which were financed by a 2014 bond.

NOTE L – LONG TERM DEBT

1. PRIMARY GOVERNMENT

Operating leases

The City leases equipment under non-cancelable operating leases. Total costs for such leases were \$6,652 for the year ended September 30, 2017. The future minimum lease payments for these leases are as follows:

Year Ending September 30,	Amount
2018	\$ 3,492
Total	<u>\$ 3,492</u>

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE L – LONG TERM DEBT

Certificate of Obligation Bonds

The City issues Certificate of Obligation bonds to provide funds for the acquisition and constructions of major capital facilities. Certificate of Obligation bonds have been issued for both governmental and business-type activities. The original amount of the Certificate of Obligation bonds issued in prior years for the City governmental activities was \$3,145,000 and the original amount of Certificate of Obligation Bonds issued in prior years for the Business-type activities was \$500,000.

The City issued \$3,000,000 of Series 2014 bonds during the year 2015. Semi-annual payments are to be made starting in 2015 through the year 2034. The rate of interest varies from 2% to 4%. The City also incurred a TCEQ environmental penalty of \$30,740. This penalty is to be paid off by monthly payments of \$853. There is no interest expense associated with this note. The balance at September 30, 2017 is \$4,297.

Certificates of Obligation bonds and tax notes issued for governmental activities are direct obligations and pledge the full faith and credit of the City and the Certificate of Obligation bonds issued for business-type activities are secured solely by specified revenue sources.

Certificate of Obligation bonds currently outstanding are as follows:

<u>Certificate of Obligation Bonds</u>	<u>Rates</u>	<u>Amounts</u>
Governmental activities, Series 2014	2.0 - 4.0%	\$ 1,190,836
Governmental activities, Series 2007	4.27%	\$ 905,000
Business-type activities, Series 2014	2.0 - 4.0%	\$ 1,484,164

Annual debt service requirements to maturity for Certificates of Obligation bonds are as follows:

Year Ending September 30,	Governmental Activities		Business- Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 129,000	\$ 78,892	\$ 66,000	\$ 51,150
2019	131,250	74,036	68,750	49,129
2020	136,250	69,040	68,750	47,066
2021	143,500	63,796	71,500	44,962
2022	150,750	58,271	74,250	42,776
2023-2027	833,000	201,096	407,000	177,939
2028-2032	400,500	78,120	489,500	95,480
2033-2037	171,586	7,470	238,414	9,130
TOTALS	\$ 2,095,836	\$ 630,721	\$ 1,484,164	\$ 517,632

Annual debt service requirements to maturity for Tax Notes are as follows:

<u>September 30,</u>	<u>Business-Type Activities</u>
2018	Principal & Interest \$ 4,297
TOTALS	\$ 4,297

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE L – LONG TERM DEBT

The changes in long-term liabilities are presented in the table below.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due After One Year
Governmental Activities:						
Bonds Payable	\$ 1,242,918	\$ -	\$ 52,082	\$ 1,190,836	\$ 54,000	\$ 1,136,836
Certificate of obligations Series 2007 (EDC 4A)	975,000	-	70,000	905,000	75,000	830,000
Certificate of obligations Series 2009 (EDC 4B)	90,000	-	90,000	-	-	-
Bonds Premium	27,820	-	1,546	26,274	-	26,274
Net Pension Liability	1,587,926	-	133,588	1,454,338	-	1,454,338
Total Bonds Payable	3,923,664	-	347,216	3,576,448	129,000	3,447,448
Compensated Absences Payable	67,434	12,949	-	80,383	33,717	46,666
	3,991,098	12,949	347,216	3,656,831	162,717	3,494,114
Business- Type Activities:						
Bonds Payable	1,547,082	-	62,918	1,484,164	66,000	1,418,164
Bond Premium	33,610	-	1,867	31,743	-	31,743
Net Pension Liability	422,107	-	35,511	386,596	-	386,596
TCEQ Note Payable	14,533	-	10,236	4,297	4,297	-
Total Bonds Payable	2,017,332	-	110,532	1,906,800	70,297	1,836,503
Compensated Absences Payable	12,649	2,054	-	14,703	6,325	8,378
Total	2,029,981	2,054	110,532	1,921,503	76,622	1,844,881
Grand Total	\$ 6,021,079	\$ 15,003	\$ 457,748	\$ 5,578,334	\$ 239,339	\$ 5,338,995

Compensated absences

The general fund and the utility fund are used to service the compensated absences. The estimated amount due in the 2016-17 year is \$80,383. The City estimates that approximately forty percent (40%) of the compensated absences will be used in the 2016-2017 year. The government-wide statement of activities includes \$14,703 due within one year.

There was no interest capitalized. All of the interest was expensed.

2. BUSINESS-TYPE ACTIVITIES

The utility fund is used to service the revenue bonds. The general fund and the utility fund are used to service the series 2014 combination tax and revenue bonds which were originally issued for \$3,000,000 and have a year end balance of \$2,790,000. The economic development fund is used to service the series 2007 combination tax and revenue bonds which were originally issued for \$1,500,000 and have a year end balance of \$975,000 and the series 2009 refunding bonds which were originally issued for \$645,000 and have a year end balance of \$90,000. The utility fund is used to service the TCEQ penalty payments which have a year end balance of \$4,297.

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

NOTE M – TEXAS MUNICIPAL RETIREMENT SYSTEM BENEFIT PLAN

POST-EMPLOYMENT BENEFITS

Ref. Ordinance No. 1998-10, Chapter 32.5, Retiree's Medical Insurance adopted and approved by the Sinton City Council on the 15th day of September 1998.

The City of Sinton will pay full-time Retiree's Medical Health Insurance. The City Retiree must have at least twenty-five (25) years of credit service with Texas Municipal Retirement System (TMRS) and must be drawing a retirement check. This policy will go into effect with the passing of this ordinance and will not be retroactive, but starting from the time of passage. This is to be added to the "Employee Policy Manual" under Chapter 7.00 Benefits, Section 7.05 Employment Insurance.

Research of the past 40 years has shown that there have been 3 employees who had 25 or more years of service with the City of Sinton. Under the Ordinance, the City of Sinton has two (2) retired employee who has qualified for this benefit. As of October 1, 2013, the City of Sinton's monthly premium expense for this employee is \$415.36 monthly to TML and \$115.40 to Humana.

The City of Sinton currently has 56 employees who are contributing to TMRS.

With the high turn-over rate that the City has experienced in the past several years, it is anticipated that of those 148 employees who have 15 years or less of service, only 6% or approximately 3 employees will attain the required 25 year tenure.

A survey of the 6 employees have shown that 3 plan to continue working until the age of 66, and the other 3 employees working until the age of 62. This, of course, is assuming no unforeseen changes, such as health, employment status, etc., that would prohibit the employees from reaching each one's goal.

DEFINED BENEFIT PENSION POLICIES

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

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

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

NOTE M – TEXAS MUNICIPAL RETIREMENT SYSTEM BENEFIT PLAN

DEFINED BENEFIT PENSION POLICIES (CONTINUED)

The City grants monetary credits for service rendered of a theoretical amount equal to two times what would have been contributed by the employee, with interest. Monetary credits, also known as the matching ratio, are 200% of the employee’s accumulated contributions and are only payable in the form of an annuity.

Beginning in 2010, the City granted an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount that takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee’s accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 2010, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years requiring for vesting	5
Service retirement eligibility	25 years to any age, 5 years at age 60 and above
Updated service credit	100% Repeating
Cost of living adjustments (COLA) for retirees	70% consumer price indices (CPI)

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	22
Inactive employees entitled to but not yet receiving benefits	47
Active employees	<u>56</u>
Total	<u>125</u>

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year [if the City changed its employee deposit rate, it should be noted here]. The contribution rates for the City were 12.40% and 12.63% in calendar years 2016 and 2017, respectively. The City’s contributions to TMRS for the year ended September 30, 2017, were \$283,366 and were equal to the required contributions.

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE M – TEXAS MUNICIPAL RETIREMENT SYSTEM BENEFIT PLAN

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 Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

NOTE M – TEXAS MUNICIPAL RETIREMENT SYSTEM BENEFIT PLAN

ACTUARIAL ASSUMPTIONS (CONTINUED)

The target allocation and best estimates of arithmetic real rates return for each major assets class in fiscal year 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Real Rate of Return (Arithmetic)</u>
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	<u>5.0%</u>	7.75%
	100.0%	

Discount Rate

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

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE M – TEXAS MUNICIPAL RETIREMENT SYSTEM BENEFIT PLAN

Changes in the Net Position—TMRS

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at December 31, 2015	\$ 8,236,125	\$ 6,226,092	\$ 2,010,033
Changes for the year:			
Service cost	340,258	-	340,258
Interest	555,308	-	555,308
Change in current benefits			
Difference between expected/actual experience	(212,614)	-	(212,614)
Changes of assumptions	-	-	-
Contributions - employer	-	278,890	(278,890)
Contributions - employee	-	157,319	(157,319)
Net investment income	-	420,850	(420,850)
Benefit payments, including refunds of employee contributions	(358,952)	(358,952)	-
Administrative expenses	-	(4,752)	4,752
Other charges	-	(256)	256
Net changes	<u>324,000</u>	<u>493,099</u>	<u>(169,099)</u>
Balance at December 31, 2016	<u>\$ 8,560,125</u>	<u>\$ 6,719,191</u>	<u>\$ 1,840,934</u>

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

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

	1% Decrease Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	<u>\$ 3,157,149</u>	<u>\$ 1,840,934</u>	<u>\$ 779,671</u>

Pension Plan Fiduciary Net Position

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

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE M – TEXAS MUNICIPAL RETIREMENT SYSTEM BENEFIT PLAN (CONTINUED)

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

For the year ended September 30, 2017, the City recognized pension expense of \$396,217. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred</u> <u>Outflows of Resources</u>	<u>Deferred</u> <u>Inflows of Resource</u>
Differences between expected and actual economic experience	\$ 3,440	\$ 158,514
Changes in actuarial assumptions	34,303	-
Difference between projected and actual investment earnings	277,570	-
Contributions subsequent to the measurement date	201,554	-
Total	<u>\$ 516,867</u>	<u>\$ 158,514</u>

\$201,554 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as outflows:

Year ended September 30,	<u>City</u>
2018	\$ 69,828
2019	54,474
2020	32,614
2021	(117)
Total	<u>\$ 156,799</u>

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

NOTE N – FIREMEN’S PENSION PLAN

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2017, there were 235 fire and/or emergency services member departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

TESRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TESRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TESRS’ website at www.tesrs.org.

Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body’s average monthly contribution over the member’s years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member’s surviving spouse and dependent children.

Employees covered by benefit terms

As of most recent measurement date, pension plan membership is as follows:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	3
Active employees	5
	13

Contributions

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE N – FIREMEN’S PENSION PLAN

Contributions (Continued)

The state is required to contribute an amount necessary to make the System “actuarially sound” each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the board to be 2% of the Part One contributions beginning September 1, 2017.

Contributions Required and Contributions Made

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2017, total contributions of \$5,012,131 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation for the 2017 measurement period using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	N/A
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components 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 (currently 4.97%) and by adding expected inflation (3.00%). In addition, the final 7.75% assumption was selected by “rounding down” and thereby reflects a reduction of 0.22% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

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

NOTE N – FIREMEN’S PENSION PLAN

Actuarial Assumptions (Continued)

Asset Class and Target Allocation and Long Term Expected Real Rate of Return

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equities		
Large cap domestic	32%	5.72%
Small cap domestic	10%	5.96%
Developed international	21%	6.21%
Emerging markets	6%	7.18%
Master limited partnership	5%	7.61%
Fixed income		
Domestic	21%	1.61%
International	5%	1.81%
Cash	0%	0.00%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2016 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan’s fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability for the Firemen’s Relief pension, calculated using the discount rate of 7.75%, 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 or 1-percentage-point higher than the current rate:

	1% Decrease in Discount Rate (6.75%)	Current Discount Rate (7.75%)	1% Decrease in Discount Rate (8.75%)
Firemen's Net Pension Liability	\$ <u>60,060</u>	\$ <u>32,162</u>	\$ <u>14,563</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2017, the City reported a liability of \$57,123 for its proportionate share of the TESRS’ net pension liability.

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE N – FIREMEN’S PENSION PLAN

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (Continued)

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer’s proportion of the net pension liability was based on the employer’s contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

Changes in Net Pension Liability

Changes in the City’s net pension liability for the Firemen’s Relief pension for the fiscal year ended September 30, 2017 are as follows:

	Increase (Decrease)		
	(a)	(b)	(a) – (b)
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at September 30, 2016	\$ 164,943	\$ 125,912	\$ 39,032
Changes for the year Service			
Service cost	2,135	-	2,135
Interest	12,687	-	12,687
Contributions – City	-	6,716	-
Contributions – State	-	2,122	-
Net investment income	-	13,100	(13,100)
Benefit payments, including refunds of employee contributions	(6,743)	(6,743)	-
Administrative expenses	-	(247)	247
Net changes	<u>8,079</u>	<u>14,949</u>	<u>(6,869)</u>
Balance at September 30, 2017	<u>\$ 173,023</u>	<u>\$ 140,861</u>	<u>\$ 32,162</u>

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

NOTE N – FIREMEN’S PENSION PLAN

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 \$11,986 for the Firemen’s Relief pension plan. Pension expense components are as follows:

<u>Pension Expense Components</u>	<u>Fiscal Year Ended 9/30/2017</u>
Services cost	\$ 3,792
Interest on TPL	22,534
Differences between expected and actual experience	47
Changes in assumptions	642
Changes in benefit terms	-
Employee contributions	-
Projected earnings on pension plan investments	(17,467)
Differences between projected and actual earnings on plan investments	1,999
Pension plan administrative expenses	439
Other changes in fiduciary net position	-
Total pension expense	<u>\$ 11,986</u>

At September 30, 2017, the city reported deferred outflows of resources related to Firemen’s Relief pension:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 34	\$ -
Changes in assumptions	470	-
Net difference between projected and actual investment earnings	2,999	-
City contribution subsequent to measurement date	-	-
Total	<u>\$ 3,503</u>	<u>\$ -</u>

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

NOTE N – FIREMEN’S PENSION PLAN

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued):

The deferred outflows and (inflows) of resources related to pensions will be amortized and recognized in pension expenses as follows:

Year ended September 30,	<u>Plan</u>
2018	\$ 1,513
2019	2,776
2020	(133)
2021	<u>(653)</u>
	<u>\$ 3,503</u>

NOTE O – OTHER INFORMATION AND EMPLOYEE BENEFITS

1. PRIMARY GOVERNMENT

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. Claim liabilities are estimated considering the effects of inflation, recent claim settlement trends (including frequency and amounts of payouts) and other economic and social factors (including the effects of specific, incremental claim adjustment expense, salvage and subrogation).

Changes in accrued liabilities for these claims follow:

	<u>Year Ended 9/30/2016</u>	<u>Year Ended 9/30/2017</u>
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims (including IBNRs)	-	-
Claim payments	<u>-</u>	<u>-</u>
Unpaid claims, end of fiscal year	<u>\$ -</u>	<u>\$ -</u>

General Liability Insurance

The City is insured for general, police officers and automobile liability. Expenditures for self-insured liabilities are accounted for in the General Fund, which will pay any liabilities incurred.

The City has joined together with other governments in the Texas Municipal League Intergovernmental Risk Pool (TML). The City pays an annual premium to TML for auto vehicle insurance coverage. The agreement with TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 to \$1,000,000 for each insurance event. The City anticipates no contingent losses.

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE O – OTHER INFORMATION AND EMPLOYEE BENEFITS

General Liability Insurance (Continued)

TML has published its own financial report that can be obtained from the Texas Municipal League Intergovernmental Risk Pool, Austin, Texas.

The City carries commercial fidelity bonds for elected officials and for management.

Property and Casualty Insurance

Property, casualty, mobile equipment, boiler and machinery insurance is provided by TML.

Workers' Compensation Insurance

The City insures against workers' compensation claims through TML.

Unemployment Compensation Insurance

The City self-insures for unemployment compensation claims through an agreement with the Texas Workforce Commission (TWC). Under the agreement, TWC administers all claims and is reimbursed by the City for claims incurred -plus administrative charges.

Group Health and Life Insurance

The City maintains a group health insurance plan for active employees and their eligible dependents. Costs are recorded in the fund from which the employees' compensation is paid.

The City Sinton is currently insured thru the Texas Municipal League Intergovernmental Employee Benefits Pool. The monthly premium for the health insurance, including life/AD&D and dental, is \$529.35. Only the full time employees, those who are participating in TMRS, are eligible for the City's health insurance.

With the constant variance in factors, such as annual experience in claims, general adjustments in premiums, and the ever changing political climate, predicting what the City's insurance expense will be for the next fiscal year much less 5 or even 10 years into the future is anyone's guess. An educated guess would be that there will be increases, and those increases will be the determining factor as to whether the City of Sinton as well as other employers will be able to provide health insurance benefits and how much will be left to the employee to pay. Whatever those costs will be will also affect the benefits for the retired employees.

Based on the above we consider the expense amount to the City is considered immaterial and thus is not included in the City-wide financial statements either as an expense or a liability.

NOTE P – CONTINGENCIES AND OTHER INFORMATION

Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by granter agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The City was not a defendant in any lawsuit at September 30, 2017.

CITY OF SINTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE P – CONTINGENCIES AND OTHER INFORMATION

Litigation

Management has represented that there is no litigation pending against the City of Sinton.

Subsequent Events

Management of the City has evaluated subsequent events for disclosure through the date of the Independent Auditor's Report, the date the financial statements were available to be issued.

Related party transaction

The City did not have related party transactions.

Construction and other commitments

The City had minimal street improvements and sewer facility improvements during the year which were financed by a 2014 bond.

Prior Period Adjustments

The City has determined that certain prior year transactions were not correctly to the general ledger at the end of the year. The City had a prior period adjustment for the governmental, debt service, and business-type activities funds. The prior period adjustments were necessary for the restatements of net position at the end of the year.

	Net Assets Per General Ledger	Net Change In Fund Balance	Net Prior Period Adjustment	Net Position End of the Year
<u>Governmental Funds</u>				
Fund Balance	\$ 565,626	\$ 233,397	\$ 46,937	\$ 845,960
Total Governmental Funds	<u>\$ 565,626</u>	<u>\$ 233,397</u>	<u>\$ 46,937</u>	<u>\$ 845,960</u>

	Fund Balance Per General Ledger	Net Change In Fund Balance	Net Prior Period Adjustment	Fund Balance End of the Year
<u>Debt Service</u>				
Fund Balance	\$ 913,762	\$ -	\$ 209,709	\$ 1,123,471
Total Business- Type Activities	<u>\$ 913,762</u>	<u>\$ -</u>	<u>\$ 209,709</u>	<u>\$ 1,123,471</u>

	Net Position Per General Ledger	Net Change In Fund Balance	Net Prior Period Adjustment	Net Position End of the Year
<u>Business- Type Activities</u>				
Net Position	\$ 6,124,464	\$ (209,175)	\$ (217,007)	\$ 5,698,282
Total Business- Type Activities	<u>\$ 6,124,464</u>	<u>\$ (209,175)</u>	<u>\$ (217,007)</u>	<u>\$ 5,698,282</u>

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SINTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	2017			Variance From Final Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Property taxes	\$ 1,167,783	\$ 1,167,783	\$ 1,241,940	\$ 74,157
Sales and franchise taxes	856,054	856,054	910,374	54,320
Fees and charges for services	893,389	893,389	976,442	83,053
Fines and forfeitures	64,117	64,117	84,740	20,623
Licenses and permits	9,750	9,750	18,956	9,206
Intergovernmental	-	-	60,000	60,000
Investment earnings	550	550	794	244
Miscellaneous income	296,225	296,225	539,408	243,183
Total revenue	<u>3,287,868</u>	<u>3,287,868</u>	<u>3,832,654</u>	<u>544,786</u>
EXPENDITURES				
General government:				
City commission and management	841,154	841,154	839,378	1,776
Municipal Court	<u>72,321</u>	<u>72,321</u>	<u>77,501</u>	<u>(5,180)</u>
Total general government	<u>913,475</u>	<u>913,475</u>	<u>916,879</u>	<u>(3,404)</u>
Public safety:				
Police	914,699	914,699	960,783	(46,084)
Fire	96,182	96,182	90,405	5,777
EMS	<u>870,433</u>	<u>870,433</u>	<u>953,478</u>	<u>(83,045)</u>
Total public safety	<u>1,881,314</u>	<u>1,881,314</u>	<u>2,004,666</u>	<u>(123,352)</u>
Public works:				
Street maintenance	455,938	455,938	400,971	54,967
Parks and recreation	<u>316,275</u>	<u>316,275</u>	<u>283,909</u>	<u>32,366</u>
Total public works	<u>772,213</u>	<u>772,213</u>	<u>684,880</u>	<u>87,333</u>

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CITY OF SINTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	2017			Variance From Final Positive (Negative)
	Original Budget	Final Budget	Actual	
EXPENDITURES				
Health and welfare:				
Animal Control	65,090	65,090	59,517	5,573
Total health and welfare	<u>65,090</u>	<u>65,090</u>	<u>59,517</u>	<u>5,573</u>
Culture and recreation:				
Public library	214,808	214,808	209,999	4,809
Total culture and recreation	<u>214,808</u>	<u>214,808</u>	<u>209,999</u>	<u>4,809</u>
Capital outlay	<u>37,485</u>	<u>37,485</u>	<u>37,485</u>	<u>-</u>
Debt service:				
Principal retirement	-	-	53,628	(53,628)
Interest and fiscal agent fees	-	-	47,400	(47,400)
Total debt service	<u>-</u>	<u>-</u>	<u>101,028</u>	<u>(101,028)</u>
Total expenditures	<u>3,669,577</u>	<u>3,669,577</u>	<u>4,014,454</u>	<u>(344,877)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(381,709)</u>	<u>(381,709)</u>	<u>(181,800)</u>	<u>199,909</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	415,197	415,197	415,197	-
Total other financing sources (uses)	<u>415,197</u>	<u>415,197</u>	<u>415,197</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	33,488	33,488	233,397	199,909
FUND BALANCE, BEGINNING	<u>565,626</u>	<u>565,626</u>	<u>565,626</u>	<u>-</u>
PRIOR PERIOD ADJUSTMENT	<u>46,937</u>	<u>46,937</u>	<u>46,937</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 646,051</u>	<u>\$ 646,051</u>	<u>\$ 845,960</u>	<u>\$ 199,909</u>

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CITY OF SINTON, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 242,487	\$ 339,180	\$ 340,258
Interest on total pension liability	496,612	531,734	555,308
Effect between expected and actual experience	-	-	(212,614)
Effect of assumptions changes or inputs	14,629	5,560	-
Effect of economic/demographic (gains) or losses	-	81,947	-
Benefit payments/refunds of contributions	<u>(302,873)</u>	<u>(297,806)</u>	<u>(358,952)</u>
Net change in total pension liability	450,855	660,615	324,000
Total pension liability, beginning	<u>7,124,655</u>	<u>7,575,510</u>	<u>8,236,125</u>
Total pension liability, ending (a)	<u>7,575,510</u>	<u>8,236,125</u>	<u>8,560,125</u>
Fiduciary Net Position			
Employer contributions	255,224	296,695	278,890
Member contributions	137,959	164,309	157,319
Investment income net of investment expenses	323,232	8,942	420,850
Benefit payments/refunds of contributions	(302,873)	(297,806)	(358,952)
Administrative expenses	(3,374)	(5,446)	(4,752)
other	<u>(277)</u>	<u>(269)</u>	<u>(256)</u>
Net change in fiduciary net position	409,891	166,425	493,099
Fiduciary net position, beginning	<u>5,649,776</u>	<u>6,059,667</u>	<u>6,226,092</u>
Fiduciary net position, ending (b)	6,059,667	6,226,092	6,719,191
Net pension liability / (asset), ending (a) - (b)	<u>\$ 1,515,842</u>	<u>\$ 2,010,033</u>	<u>\$ 1,840,934</u>
Fiduciary net position as a % of total pension liability	79.99%	75.59%	78.49%
Pensionable covered payroll	\$ 1,970,842	\$ 2,347,267	\$ 2,347,267
Net pension liability as a % of covered payroll	76.91%	85.63%	78.43%

Note: Three years of data is presented in accordance with GASB 68, Paragraph 138, since this is the only information available that is measured in accordance with this statement.

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**CITY OF SINTON, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

Fiscal Year Ended September 30,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2007	\$ 39,494	\$ 39,494	\$ -	\$ 394,937	10.0%
2008	36,592	36,592	-	412,537	8.9%
2009	35,866	35,886	-	393,060	9.1%
2010	48,870	48,870	-	423,848	11.5%
2011	47,325	47,325	-	419,177	11.3%
2012	54,154	54,154	-	457,378	11.8%
2013	56,072	56,072	-	466,615	12.0%
2014	56,386	56,386	-	439,828	12.8%
2015	67,811	67,811	-	481,615	14.1%
2016	69,375	69,375	-	487,357	14.2%

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**CITY OF SINTON, TEXAS
 NOTES TO SCHEDULE OF CONTRIBUTIONS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor

Inflation	2.5%
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. The base table is the RP-2000 table projected with Scale AA to 2014.

Other Information:

Notes There were no benefit changes during the year.

Note: Three years of data is presented in accordance with GASB 68, Paragraph 138, since this is the only information available that is measured in accordance with this statement.

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CITY OF SINTON, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
FIREMEN'S PENSION PLAN
FOR THE FISCAL YEAR ENDED

Plan Year	September 30,		
	2017	2016	2015
A. Total pension liability			
Service Cost	\$ 2,135	\$ 2,270	\$ 2,270
Interest (on the Total Pension Liability)	12,687	11,929	11,351
Changes of benefit terms	-	968	-
Difference between expected and actual experience	-	87	-
Changes of assumptions	-	1,193	-
Benefit payments, including refunds of employee contributions	(6,743)	(6,300)	(6,028)
Net change in total pension liability	8,079	10,145	7,593
Total pension liability - beginning	<u>164,943</u>	<u>154,798</u>	<u>147,205</u>
Total pension liability - ending (a)	<u>\$ 173,023</u>	<u>\$ 164,943</u>	<u>\$ 154,798</u>
B. Plan fiduciary net position			
Contributions - City	\$ 6,716	\$ 4,641	\$ 4,711
Contributions - State	2,122	2,122	2,194
Contributions - Employer	-	-	-
Net Investment Income	13,100	6,642	(4,412)
Benefit payments, including refunds of employee contributions	(6,743)	(6,300)	(6,028)
Administrative Expenses	(247)	(224)	(289)
Net change in plan fiduciary net position	14,949	6,882	(3,825)
Plan fiduciary net position - beginning	<u>125,912</u>	<u>119,030</u>	<u>122,855</u>
Plan fiduciary net position - ending (b)	<u>\$ 140,861</u>	<u>\$ 125,912</u>	<u>\$ 119,030</u>
C. Net pension liability - ending (a) - (b)	<u>\$ 32,162</u>	<u>\$ 39,032</u>	<u>\$ 35,768</u>
D. Plan fiduciary net position as a percentage of total pension liability	81.41%	76.34%	76.89%
E. Number of Active Members	5	5	5
F. System's Net Pension Liability per Active Member	\$ 5,932	\$ 8,015	\$ 6,614
			\$ 4,502

Note: GASB requires 10 fiscal years of data to be provided in this schedule. However, until a full 10-year trend is completed, this schedule provides three years of information

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**CITY OF SINTON, TEXAS
 SCHEDULE OF CONTRIBUTIONS
 FIREMEN'S PENSION PLAN
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

Plan Year	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarial determined contribution	\$ 7,647	\$ 6,905	\$ 6,764	\$ 8,839
Contributions in relation to the actuarially determined contribution	7,647	6,905	6,764	8,839
Contribution deficiency (excess)	-	-	-	-
Covered employee payroll	56,647	57,305	54,732	74,798
Contributions as a percentage of covered employee payroll	27.0%	13.70%	14.10%	13.40%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

31-Dec-16

Notes: The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age normal
Amortization Method	Level annual dollar amount
Remaining Amortization period	30 years
Asset Valuation Method	Market value
Inflation	3.00%
Salary Increases	Not applicable
Investment Rate of Return	7.75%
Retirement Age	Age 55 or above

Other Information:

Notes

There were no benefit changes during the year.

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CITY OF SINTON, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except as a management control device during the year for the General, Debt Service and Special Revenue funds, as well as of the Water, Sewer and Solid Waste collection funds.

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

Budgetary data for Capital Project Funds are budgeted over the life of the respective project and not on an annual basis. Therefore, this data is not presented in the accompanying combined financial statements.

Revisions that alter individual expenditure category or department totals within a fund must be approved by the City Council. Therefore, the legal level of budgetary responsibility is the department level.

City Management establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year. City Management submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating fund includes proposed expenditures and the means of financing them. Public hearings are conducted at City Hall to obtain taxpayer comments. Prior to October 1, the budget is adopted by the City Council.

Expenditures may not legally exceed budgeted appropriations at the fund level. During the year, one budgetary revision was necessary.

Expenditures Over Appropriations

At September 30, 2017, expenditures in the following departments exceeded appropriations:

<u>Department</u>	<u>General Fund Excess of Expenditures Over Appropriation</u>
City commission and management	\$ 1,776
Fire	5,777
Street maintenance	54,967
Parks and recreation	32,366
Animal control	5,573
Public library	4,809
Debt service	101,028
	<u>\$ 206,296</u>

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NON-MAJOR GOVERNMENTAL FUNDS SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes. The City has the following special revenue funds:

The **Criminal Justice Planning Fund** is used to account for funds received from the payment of citations issued by the City. The funds may only be expended for the benefit of the municipal court.

The **Fire Equipment and Replacement Fund** is used to account for equipment replacement expenditures related to the City's volunteer fire department.

The **Sinton Affordable housing Fund** is used to account for expenditures related to the City's affordable public housing program.

The **Self-Insurance Fund** is used to account for expenditures related to the City's unemployment compensation claims.

CAPITAL PROJECTS FUNDS

Capital project funds are used to account for the acquisition and construction of non-major capital facilities other than those financed by proprietary funds and trust funds. The City has the following non-major capital projects funds:

The **Certificates of Obligation Bonds Series 1985 Fund's** activities included only the recording and accounting of immaterial expenditures.

The **2010 Tax Note Street Improvement Fund** is used to account for immaterial investment earnings.

The **2014 Tax Note Street Improvement Fund** is used to account for expenditures for the public works department.

DEBT SERVICE FUND

The Debt Service Fund is used to account for the accumulation of resources and the payment of general obligation bond principal and interest from governmental resources when the City is obligated in some manner for the payment.

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COMBINING STATEMENTS

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**CITY OF SINTON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017**

	Nonmajor Special Revenue	Nonmajor Capital Projects	Nonmajor Debt Service	Total Nonmajor Governmental Funds
ASSETS				
Cash and investments	\$ 407,573	\$ 455,382	\$ -	\$ 862,955
Due from other funds	-	5,912	426,725	432,637
Restricted cash and cash equivalents	<u>176,240</u>	<u>-</u>	<u>696,746</u>	<u>872,986</u>
Total assets	<u>\$ 583,813</u>	<u>\$ 461,294</u>	<u>\$ 1,123,471</u>	<u>\$ 2,168,578</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 9,773	\$ 117,237	\$ -	\$ 127,010
Accrued liabilities	23,099	-	-	23,099
Due to other funds	-	-	-	-
Unearned revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>32,872</u>	<u>117,237</u>	<u>-</u>	<u>150,109</u>
Deferred inflows of resources:				
Unavailable revenue - property taxes	-	-	-	-
Unavailable revenue - noncurrent receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Restricted	550,941	344,057	1,123,471	2,018,469
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>550,941</u>	<u>344,057</u>	<u>1,123,471</u>	<u>2,018,469</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 583,813</u>	<u>\$ 461,294</u>	<u>\$ 1,123,471</u>	<u>\$ 2,168,578</u>

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

	Nonmajor Special Revenue	Nonmajor Capital Projects	Nonmajor Debt Service	Total Nonmajor Governmental Funds
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	94,640	-	-	94,640
Fines and forfeitures	-	-	-	-
Intergovernmental revenue	-	-	-	-
Miscellaneous income	-	23,273	-	23,273
Interest and investment income	1,387	373	354	2,114
Total revenues	<u>96,027</u>	<u>23,646</u>	<u>354</u>	<u>120,027</u>
EXPENDITURES				
Current:				
General government	-	199,185	354	199,539
Public safety	41,651	-	-	41,651
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal agent fees	-	-	-	-
Advance refunding escrow - from existing resources	-	-	-	-
Issuance costs	-	-	-	-
Total expenditures	<u>41,651</u>	<u>199,185</u>	<u>354</u>	<u>241,190</u>
EXCESS (DEFICIENCY) OF REVENUES				
(OVER) UNDER EXPENDITURES	<u>54,376</u>	<u>(175,539)</u>	<u>-</u>	<u>(121,163)</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital asset	-	-	-	-
Refunding bonds issued	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	54,376	(175,539)	-	(121,163)
FUND BALANCES, BEGINNING	496,565	519,596	913,762	1,929,923
PRIOR PERIOD ADJUSTMENT	-	-	209,709	209,709
FUND BALANCES, ENDING	<u>\$ 550,941</u>	<u>\$ 344,057</u>	<u>\$ 1,123,471</u>	<u>\$ 2,018,469</u>

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**CITY OF SINTON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2017**

	Criminal Justice Planning	Fire Equipment and Replacement	Sinton Affordable Housing	Self Insurance Fund	Total Nonmajor Special Revenue Funds
ASSETS					
Cash and investments	\$ 16,961	\$ -	\$ 248,143	\$ 142,469	\$ 407,573
Restricted cash and equivalents	<u>-</u>	<u>176,240</u>	<u>-</u>	<u>-</u>	<u>176,240</u>
Total assets	<u>\$ 16,961</u>	<u>\$ 176,240</u>	<u>\$ 248,143</u>	<u>\$ 142,469</u>	<u>\$ 583,813</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 9,773	\$ -	\$ -	\$ -	\$ 9,773
Accrued liabilities	-	-	23,099	-	23,099
Due to other funds	-	-	-	-	-
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>9,773</u>	<u>-</u>	<u>23,099</u>	<u>-</u>	<u>32,872</u>
Fund balances:					
Restricted	7,188	176,240	225,044	142,469	550,941
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>7,188</u>	<u>176,240</u>	<u>225,044</u>	<u>142,469</u>	<u>550,941</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 16,961</u>	 <u>\$ 176,240</u>	 <u>\$ 248,143</u>	 <u>\$ 142,469</u>	 <u>\$ 583,813</u>

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CITY OF SINTON, TEXAS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	Criminal Justice Planning	Fire Equipment and Replacement	Sinton Affordable Housing	Self Insurance Fund	Total Nonmajor Special Revenue Funds
REVENUES					
Nonproperty taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	46,591	3,213	44,836	-	94,640
Fines and forfeitures	-	-	-	-	-
Intergovernmental revenue	-	-	-	-	-
Miscellaneous income	-	-	-	-	-
Interest and investment income	-	94	1,232	61	1,387
Total revenues	<u>46,591</u>	<u>3,307</u>	<u>46,068</u>	<u>61</u>	<u>96,027</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	41,651	-	-	-	41,651
Health and welfare	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal agent fees	-	-	-	-	-
Total expenditures	<u>41,651</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,651</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>4,940</u>	<u>3,307</u>	<u>46,068</u>	<u>61</u>	<u>54,376</u>
NET CHANGE IN FUND BALANCES	4,940	3,307	46,068	61	54,376
FUND BALANCES, BEGINNING	2,248	172,933	178,976	142,408	496,565
FUND BALANCES, ENDING	<u>\$ 7,188</u>	<u>\$ 176,240</u>	<u>\$ 225,044</u>	<u>\$ 142,469</u>	<u>\$ 550,941</u>

CITY OF SINTON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
SEPTEMBER 30, 2017

	2014 Tax Note Street Improvement	1985 General Obligation	2010 Tax Note Street Improvement
ASSETS			
Cash and investments	\$ 43,829	\$ 1,986	\$ 153,444
Due from other funds	5,912	-	-
Total assets	49,741	1,986	153,444
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	117,237	-	-
Due to other funds	-	-	-
Total liabilities	117,237	-	-
Fund balances:			
Restricted	(67,496)	1,986	153,444
Unassigned	-	-	-
Total fund balances	(67,496)	1,986	153,444
Total liabilities and fund balances	\$ 49,741	\$ 1,986	\$ 153,444

Street Improvement Fund	Municipal Building Fund	Total Nonmajor Capital Projects Funds
\$ 215,267	\$ 40,856	\$ 455,382
<u>-</u>	<u>-</u>	<u>5,912</u>
<u>215,267</u>	<u>40,856</u>	<u>461,294</u>
-	-	117,237
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>117,237</u>
215,267	40,856	344,057
<u>-</u>	<u>-</u>	<u>-</u>
<u>215,267</u>	<u>40,856</u>	<u>344,057</u>
<u>\$ 215,267</u>	<u>\$ 40,856</u>	<u>\$ 461,294</u>

CITY OF SINTON, TEXAS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	2014 Street Improvement Fund	1985 General Obligation	2010 Tax Note Street Improvement
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Fess and charges for services	\$ -	\$ -	\$ -
Intergovernmental	-	-	-
Miscellaneous income	-	-	-
Interest and investment income	185	-	77
Total revenues	<u>185</u>	<u>-</u>	<u>77</u>
EXPENDITURES			
Public works	166,313	32,872	-
Capital outlay	-	-	-
Debt issuance costs	-	-	-
Total expenditures	<u>166,313</u>	<u>32,872</u>	<u>-</u>
Total expenditures			
EXCESS (DEFICIENCY) OF REVENUES			
OVER (UNDER) EXPENDITURES	<u>(166,128)</u>	<u>(32,872)</u>	<u>77</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(166,128)	(32,872)	77
FUND BALANCES, BEGINNING	<u>98,632</u>	<u>34,858</u>	<u>153,367</u>
FUND BALANCES, ENDING	<u><u>\$(67,496)</u></u>	<u><u>\$ 1,986</u></u>	<u><u>\$ 153,444</u></u>

Street Improvement Fund	Municipal Building Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -
-	-	-
23,273	-	23,273
91	20	373
<u>23,364</u>	<u>20</u>	<u>23,646</u>
-	-	199,185
-	-	-
-	-	-
-	-	<u>199,185</u>
<u>23,364</u>	<u>20</u>	<u>(175,539)</u>
-	-	-
-	-	-
-	-	-
23,364	20	(175,539)
<u>191,903</u>	<u>40,836</u>	<u>519,596</u>
<u>\$ 215,267</u>	<u>\$ 40,856</u>	<u>\$ 344,057</u>

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COMPLIANCE SECTION

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**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***

The Honorable Mayor and Members
Of the City Commission
City of Sinton, Texas

We have audited, 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, the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sinton, Texas as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Sinton, Texas' basic financial statements, and have issued our report thereon dated July 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Sinton, 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 Sinton, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sinton, Texas' 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as items 2017-01 through 2017-04.

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Governmental Audit
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sinton, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we have reported to management of the City in a separate letter dated July 16, 2018.

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.

Pattillo, Bran & Hill, C.P.A.

Brownsville, Texas
August 21, 2018

**CITY OF SINTON, TEXAS
SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

<u>Reference No.</u>	<u>Findings/Noncompliance</u>
<u>Finding 2017-01</u>	<i>ECONOMIC DEVELOPMENT CORPORATION (EDC)--FUND ACCOUNTING SYSTEM</i>
<u>Criteria:</u>	Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.
<u>Condition:</u>	The City's lacked an accounting system for the EDC. As a result, the City did not post and/or record cash and other financial resources, liabilities, revenues, and expenses. As of September 30, 2016, the City's general ledger did not reflect financial transactions for EDC 4A and 4B.
<u>Cause:</u>	The City could not readily provide an accounting for the EDC's assets, liabilities, equity balances, revenues, expenses, and financial reports.
<u>Effect:</u>	Accounting systems are essential for segregations of financial resources and reporting. From a management viewpoint, the City could not readily provide an accounting for the EDC's assets, liabilities, and equity balance and financial reports.
<u>Recommendation:</u>	The City should consider developing and implementing procedures and processes to maintain an EDC accounting system to ensure the timely recording, posting, and reconciliation of all financial transactions.
<u>Finding 2017-02</u>	<i>GROUPING OF VARIOUS FUNDS-ACCOUNTING SYSTEMS</i>
<u>Criteria:</u>	Governmental accounting systems should be organized and operated on a fund basis. Each fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash, related liabilities and fund balances.
<u>Condition:</u>	During our audit, we found that the City grouped various funds. This resulted in a significant amount of time to separate the fund into single funds to account for each of the funds' balances for assets, liabilities, equity, and revenues and expenses.
<u>Cause:</u>	The City's finance department lacks additional governmental accounting training.
<u>Effect:</u>	Accounting systems are essential for segregations of financial resources and reporting. From a management viewpoint, the City could not readily provide an accounting for each of funds' assets, liabilities, and equity balance and financial reports.
<u>Recommendation:</u>	The City's finance department should take governmental accounting training.

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Finding 2017-03

RECOGNITION OF LONG TERM DEBT SERVICE LIABILITIES AND PAYMENTS

Criteria: Governments should recognize debt service liabilities and payments when due. A government must accrue a governmental fund liability and expenditure for most expenditures and transfers in the period in which the government incurs the liability.

Condition: Although the City made the debt service payments, the payments were not posted to the appropriate debt service accounts.

Cause: The City did not implement procedures or processes to ensure the debt service payments were posted to the debt service accounts.

Effect: The City's debt service balances were not accurate.

Recommendation: The City should develop and implement procedures or processes to ensure the finance department records the debt service payments to the appropriate accounts

Finding 2017-04

CONSTRUCTION IN PROGRESS

Criteria: Construction in progress (CIP) is a capital asset and should be reported in the statement of net position with other assets.

Condition: The capital assets beginning balance for the City's governmental activities included an amount for construction in progress. However, the City did not make an adjustment or allocate CIP to capital assets to reflect the percentage completed and capitalized.

Cause: The City did not use a cost-accumulation method to capitalize the CIP completed.

Effect: The City's financial report reflects an unallocated CIP amount of \$1,022,573.

Recommendation: The City should develop and implement procedures or processes to ensure the finance department records the debt service payments to the appropriate accounts

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