

CITY OF NEEDVILLE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

CITY OF NEEDVILLE, TEXAS
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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
Members of the City Council
City of Needville, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Needville, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Needville, Texas, as of September 30, 2018, 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 and other required supplementary information on pages 3 through 9 and 35 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Needville Texas's 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Respectfully submitted,

Michael A. Lee, P.C.

La Grange, Texas
June 28, 2019

CITY OF NEEDVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Needville, Texas (the City) for the year ended September 30, 2018. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirement for the MD&A. This MD&A should be read in conjunction with the City's financial statements, which is part of these financial statements:

STRUCTURE OF OUR ANNUAL REPORT

The table of contents presented at the beginning of this report provides an overview of the structure of the City's report, as well as the page numbers where the respective sections can be located within the report. The annual financial is present as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as the MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the accrual basis of accounting method which is similar to the accounting used by most private-sector companies. Under this method, revenues are recognized when earned and expenditures when they occur.

The Statement of Net Position reports net position as the difference in assets and liabilities. The increase or decrease in net position of the City can serve as a useful indicator of the City's financial position currently as compared to prior year (s). Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City. The Statement of Activities reflects the change in net position during the year.

CITY OF NEEDVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018

These statements are divided into the following classes of activities:

Governmental Activities- Basic services are reported under this activity, including the general government, public safety and public works, and interest on the City's debt. Sales tax, property taxes, franchise taxes, municipal court fines and permit fees finance most of these activities.

Business-type Activities- Basic services involving a fee are reported here. These include the City's water and sewer services.

Component Units- The City of Needville itself is the primary government. The Development Corporation of Needville (DCN) is established as a separate legal entity. The City maintains financial accountability over the DCN; thus, the DCN is reported as a discrete component unit, separate from the financial transactions of the City.

FUND FINANCIAL STATEMENTS

Fund financial statements are segregated for specific activities and objectives. The use of fund accounting is to ensure and demonstrate compliance with finance related legal reporting requirements. Governmental and proprietary funds are the basic fund type financial statements.

Government Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year. The City maintains two governmental funds. They are the general fund and debt service fund. Both the governmental fund balance sheets and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between government-wide statements and fund financial statement.

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

Proprietary Funds -- The focus of the City's proprietary funds statements is to account for all "business- like" activity. The City has only one proprietary fund which is the water and sewer fund. There is no difference in the reporting of proprietary funds under the government-wide financial statements and the fund financial statements.

**CITY OF NEEDVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

NOTES TO FINANCIAL STATEMENTS

The Notes to the financial statement provide additional information that is essential to a full understanding of the financial data provided both in the government-wide and fund financial statements.

OTHER INFORMATION

GASB Statement No. 34 requires that budgetary comparison schedules for the general fund and a schedule of funding progress for the Texas Municipal Retirement System be presented.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Assets of the City exceeded its liabilities at current year end by \$8,522,323 as compared to the prior year of \$8,641,356. A large portion of these net assets were investments in capital assets amounting to \$4,243,080 for the current fiscal year and \$3,900,954 for the prior fiscal year. These capital assets consist of land, buildings, machinery and equipment, infrastructure and public works facilities, less related debts used to acquire these assets. The capital assets are used to provide services to its citizens and consequently, are not available for future spending. Further, the City's debt related to the capital investments will require future current resources for their retirement. The City has further restriction on the use of its net position due to external restrictions.

A portion of the City's net position, \$904,545, represents resources that are subject to external restrictions on how they may be used. The overall condition of the City improved during the year primarily as a result of increased property and sales tax revenues.

CITY OF NEEDVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018

The following is condensed statements of net position for the current fiscal and prior fiscal year:

CONDENSED STATEMENT OF NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
ASSETS:						
Current and other assets	\$3,008,485	\$3,075,787	\$1,458,655	\$1,726,515	\$4,467,140	\$4,802,302
Capital assets, net	933,043	808,998	4,525,037	4,476,956	5,458,080	5,285,954
Net pension asset	77,847	-	-	-	77,847	-
Deferred outflow	109,638	128,853	-	-	109,638	128,853
Total assets	4,129,013	4,013,638	5,983,692	6,203,471	10,112,705	10,217,109
LIABILITIES:						
Long-term liabilities	-	89,094	1,045,000	1,215,000	1,045,000	1,304,094
Other liabilities	38,166	16,971	296,091	253,858	334,257	270,829
OPEB liability	70,116	-	-	-	70,116	-
Deferred inflow	141,009	3,830	-	-	141,009	3,830
Total liabilities	249,291	109,895	1,341,091	1,468,858	1,590,382	1,578,753
NET POSITION:						
Net investment in						
capital assets	933,043	808,998	3,310,037	3,091,956	4,243,080	3,900,954
Restricted	904,545	739,333	-	-	904,545	739,333
Unrestricted	2,042,134	2,355,412	1,332,564	1,645,657	3,374,698	4,001,069
Total net position	<u>\$3,879,722</u>	<u>\$3,903,743</u>	<u>\$4,642,601</u>	<u>\$4,737,613</u>	<u>\$8,522,323</u>	<u>\$8,641,356</u>

Governmental Activities

Total revenues for the governmental activities have increased by \$110,330 for the current fiscal year compared to the prior fiscal year. These increases are largely attributable to an increase in sales taxes and interest income. Total expenses increased by 15.37% for the current fiscal year compared to the prior fiscal year.

CITY OF NEEDVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018

Business-Type Activities

Revenues for business-type activities decreased \$37,876 for the current fiscal year compared to the prior fiscal year. This is a 4.9% decrease from the current fiscal year to the prior fiscal year as the result of a decrease in water and sewer charges received in the current year. The following is a condensed statement of changes in net position for the current fiscal and prior fiscal year.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
REVENUES:						
Program revenues:						
Charges for service	\$ 367,929	\$ 389,170	\$ 689,677	\$ 730,166	\$ 1,057,606	\$ 1,119,336
Operating grants	-	-	-	-	-	-
General revenues:						
Property taxes	627,128	639,795	-	-	627,128	639,795
Sales taxes	633,013	547,979	-	-	633,013	547,979
Franchise and local taxes	139,245	135,114	-	-	139,245	135,114
Interest income	45,978	19,786	8,123	3,694	54,101	23,480
Other revenues	56,815	27,934	40,756	42,572	97,571	70,506
Total revenues	1,870,108	1,759,778	738,556	776,432	2,608,664	2,536,210
EXPENDITURES						
General government	1,059,137	819,309	-	-	1,059,137	819,309
Public safety	583,789	533,085	-	-	583,789	533,085
Public works	49,217	114,349	-	-	49,217	114,349
Interest and fees	-	-	31,986	35,753	31,986	35,753
Water and sewer	-	-	1,003,568	923,207	1,003,568	923,207
Total expenditures	1,692,143	1,466,743	1,035,554	958,960	2,727,697	2,425,703
Increase in net position						
before transfers	177,965	293,035	(296,998)	(182,528)	(119,033)	110,507
Transfers	(201,986)	(200,753)	201,986	200,753	-	-
Change in net position	(24,021)	92,282	(95,012)	18,225	(119,033)	110,507
Beginning net position	3,903,743	3,811,461	4,737,613	4,719,388	8,641,356	8,530,849
Ending net position	\$ 3,879,722	\$ 3,903,743	\$ 4,642,601	\$ 4,737,613	\$ 8,522,323	\$ 8,641,356

**CITY OF NEEDVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reflect combined fund balance of \$2,936,872 for the current fiscal year. Of this \$904,545 is reserved for debt service.

The General fund had revenues exceed expenditures by \$97,681 and, after transfers of \$357,316, the net change in fund balance was a decrease of \$259,635.

The Debt Service fund had revenues exceed expenditures by \$9,882 and, after transfers of \$155,330, the net change in fund balance was an increase of \$165,212.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund had total revenues of \$1,854,300 resulting in a favorable budget variance of \$56,402 from the final amended budget for the current fiscal year. This favorable variance is primarily due to franchise and local taxes, licenses and permits, and interest income reporting more than expected revenues for the current fiscal year. The City's general fund expenditures were under the final budget by \$235,039 which resulted in a favorable budget variance of \$291,441.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets -The City's governmental activities and business-type activities had invested \$5,458,080 for the current fiscal in a variety of capital assets and infrastructure net of accumulated depreciation. See notes to these financials for more detail.

Long-Term Debt -- The City had long-term obligations in business-type activities of \$1,215,000 for the current fiscal year. During the current fiscal year, the City reduced its long-term debt by \$170,000. See notes to these financials for more detail.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City will continue to face challenges due to its beginning fund balance and the current economy. Even though these challenges will be there, the City is seeking to provide the best services possible for its residents.

**CITY OF NEEDVILLE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or request for additional financial information should be directed to the Brenda Teykl, City Secretary, City of Needville, Texas 9022 Main Street, Needville, Texas 77461, telephone (979) 793-4254.

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BASIC FINANCIAL STATEMENTS

City of Needville, Texas
Statement of Net Position
September 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 2,864,390	\$ 1,403,735	\$ 4,268,125
Receivables, net	144,095	54,920	199,015
Total current assets	3,008,485	1,458,655	4,467,140
Noncurrent assets			
Capital assets not being depreciated	174,445	-	174,445
Capital assets, net of accumulated depreciation	758,598	4,525,037	5,283,635
Net capital assets	933,043	4,525,037	5,458,080
Net pension asset	77,847	-	77,847
Total assets	<u>\$ 4,019,375</u>	<u>\$ 5,983,692</u>	<u>\$ 9,925,220</u>
Deferred outflow of resources			
Deferred outflow related to pensions	\$ 102,290	\$ -	\$ 102,290
Deferred outflow related to OPEB	7,348	-	7,348
Total deferred outflow of resources	<u>\$ 109,638</u>	<u>\$ -</u>	<u>\$ 102,290</u>
Liabilities and Net Position			
Liabilities			
Current liabilities			
Current maturity of long-term debt	\$ -	\$ 170,000	\$ 170,000
Accounts payable and other accrual	38,166	19,494	57,660
Security deposits	-	106,597	106,597
Total current liabilities	38,166	296,091	334,257
OPEB Liability	70,116	-	70,116
Long-term debt, less current maturities	-	1,045,000	1,045,000
Total liabilities	108,282	1,341,091	1,449,373
Deferred inflow of resources			
Deferred inflow related to pensions	139,923	-	139,923
Deferred inflow related to OPEB	1,086	-	1,086
Total deferred inflow of resources	141,009	-	141,009
Net position			
Net investment in capital assets	933,043	3,310,037	4,243,080
Restricted for:			
Retirement of long-term debt	904,545	-	904,545
Economic development	-	-	-
Unrestricted	2,042,134	1,332,564	3,374,698
Total net position	<u>\$ 3,879,722</u>	<u>\$ 4,642,601</u>	<u>\$ 8,522,323</u>

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

<u>Component Units</u>

\$ 738,023

-
<u>738,023</u>

-
-
<u>-</u>
<u>\$ 738,023</u>

\$ -
-
<u>\$ -</u>

\$ -
-
-
<u>-</u>
-
-
<u>-</u>

-
-
<u>-</u>

-
-
738,023
-
<u>\$ 738,023</u>

City of Needville, Texas

Statement of Activities

For the Year Ended September 30, 2018

		Program Revenues	
		Charges for Services	Operating Grants and Contributions
	Expenses		
Primary Government			
Governmental Activities			
General government	\$ 1,059,137	\$ 101,210	\$ -
Public safety	583,789	266,719	-
Public works	49,217	-	-
Total Governmental Activities	1,692,143	367,929	-
Business-type Activities			
Water and sewer	1,003,568	689,677	-
Total Business-Type Activities	1,003,568	689,677	-
Total Primary Government	<u>\$ 2,695,711</u>	<u>\$ 1,057,606</u>	<u>\$ -</u>
Component Units			
General administration	\$ 108,544	\$ -	\$ -
Program development	-	-	-
	<u>108,544</u>	<u>-</u>	<u>-</u>
General revenues:			
Taxes			
Property			
Sales taxes			
Franchise taxes and local taxes			
Unrestricted investment earnings			
Interest expense			
Miscellaneous			
Transfers			
Total general revenues and transfers			
Changes in net position			
Net position - beginning			
Net position - ending			

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

Net Revenues (Expenses) and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (957,927)	\$ -	\$ (957,927)	\$ -
(317,070)	-	(317,070)	-
(49,217)	-	(49,217)	-
(1,324,214)	-	(1,324,214)	-
-	(313,891)	(313,891)	-
-	(313,891)	(313,891)	-
(1,324,214)	(313,891)	(1,638,105)	-
\$ -	\$ -	\$ -	\$ 108,544
-	-	-	-
-	-	-	108,544
627,128	-	627,128	11,187
633,013	-	633,013	146,969
139,245	-	139,245	-
45,978	8,123	54,101	9,013
-	(31,986)	(31,986)	-
56,815	40,756	97,571	-
(201,986)	201,986	-	-
1,300,193	218,879	1,519,072	167,169
(24,021)	(95,012)	(119,033)	58,625
3,903,743	4,737,613	8,641,356	679,398
\$ 3,879,722	\$ 4,642,601	\$ 8,522,323	\$ 738,023

City of Needville, Texas
Balance Sheet - Governmental Funds
September 30, 2018

	General Fund
Assets	
Cash and cash equivalents	\$ 1,959,845
Receivables	
Sales and franchise taxes	87,847
Accounts receivable	22,801
Delinquent taxes (less allowance of \$8,232)	20,442
Total assets	<u>\$ 2,090,935</u>
Liabilities, Deferred Inflows of Resources and Fund Balances	
Liabilities	
Accounts payable and accruals	\$ 38,166
Total liabilities	<u>38,166</u>
Deferred inflows of resources	
Deferred inflows	<u>20,442</u>
Total deferred inflows of resources	<u>20,442</u>
Fund balances	
Restricted fund balances:	
Retirement of long-term debt	-
Unassigned	<u>2,032,327</u>
Total fund balances	<u>2,032,327</u>
Total liabilities and fund balances	<u>\$ 2,090,935</u>

Reconciliation to the Statement of Net Position of Governmental Activities:

Total governmental fund balance
Add capital assets not reported in governmental funds, (net of accumulated depreciation of \$993,336)
Deferred revenues for property taxes receivable recognized as revenue in the government-wide statement of net position
Recognition of the City's proportionate share of the net pension liability is not reported in governmental funds. The net effect of the current year's asset is to increase net position
Recognition of the City's deferred outflows/(inflows) due to net pension liability is not reported in governmental funds. The net effect of deferred outflows (inflows) is to increase net position
Recognition of the City's deferred outflows/(inflows) due to other post-employment benefits liability is not reported in governmental funds.
Net Position of Governmental Activities

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

<u>Debt Service</u>	<u>Total Governmental</u>
\$ 904,545	\$ 2,864,390
-	87,847
-	22,801
13,005	33,447
<u>\$ 917,550</u>	<u>\$ 3,008,485</u>

<u>\$ -</u>	<u>\$ 38,166</u>
-	38,166

<u>13,005</u>	<u>33,447</u>
13,005	33,447

904,545	904,545
-	2,032,327
<u>904,545</u>	<u>2,936,872</u>
<u>\$ 917,550</u>	<u>\$ 3,008,485</u>

\$ 2,936,872

933,043

33,447

77,847

(37,633)

(63,854)
\$ 3,879,722

City of Needville, Texas**Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds
For the Year Ended September 30, 2018**

	<u>General Fund</u>
Revenues	
Property taxes	\$ 621,202
Sales taxes	633,013
Charges for services	266,719
Franchise and local taxes	139,245
Municipal court	67,591
Other revenue	56,815
Permits and licenses	33,619
Interest	36,096
Total revenues	<u>1,854,300</u>
Expenditures	
General government	1,123,613
Public works	49,217
Public safety	583,789
Debt service	
Principal	-
Interest	-
Total expenditures	<u>1,756,619</u>
Revenues over (under) expenditures	97,681
Other Financial Sources (Uses)	
Operating transfers in (out)	<u>(357,316)</u>
Total other financial sources (uses)	<u>(357,316)</u>
Net change in fund balance	(259,635)
Beginning fund balance	<u>2,291,962</u>
Ending fund balance	<u><u>\$ 2,032,327</u></u>

Reconciliation to the Statement of Activities

Total net change in fund balance - governmental funds

Net increase in revenues on the Statement of Activities not included
in the governmental funds statement - Capital outlays/sales

Net decrease in revenues on the Statement of Activities not included
in the governmental funds statement - Property tax revenues

Expenses on the Statement of Activities not included in the
governmental funds statement - Depreciation expense

Recognition of the City's proportionate share of the net pension
expense is not reported in governmental funds. The net effect of
the current year's expense is to increase net position

Change in net position of governmental activities

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

<u>Debt Service</u>	<u>Total Governmental</u>
\$ -	\$ 621,202
-	633,013
-	266,719
-	139,245
-	67,591
-	56,815
-	33,619
9,882	45,978
<u>9,882</u>	<u>1,864,182</u>
-	1,123,613
-	49,217
-	583,789
-	-
-	-
<u>-</u>	<u>1,756,619</u>
9,882	107,563
<u>155,330</u>	<u>(201,986)</u>
155,330	(201,986)
<u>165,212</u>	<u>(94,423)</u>
739,333	3,031,295
<u>\$ 904,545</u>	<u>\$ 2,936,872</u>

\$ (94,423)

217,784

5,926

(93,740)

(59,568)

\$ (24,021)

City of Needville, Texas
Statement of Net Position - Proprietary Funds
September 30, 2018

	Business-type Activities Enterprise Fund
Assets	
Current assets	
Cash and cash equivalents	\$ 1,403,735
Customer receivables	54,920
Total current assets	<u>1,458,655</u>
Capital assets	
Building	32,889
Water system	5,390,062
Sewer system	2,510,750
Equipment and furniture	16,250
Machinery and equipment	664,622
Total Capital assets	<u>8,614,573</u>
Less accumulated depreciation	<u>(4,089,536)</u>
Net capital assets	<u>4,525,037</u>
 Total assets	 <u><u>\$ 5,983,692</u></u>
 Liabilities and Net Position	
Liabilities	
Accounts payable and accruals	\$ 19,494
Customer deposits	106,597
Current maturity of long-term debt	170,000
Total current liabilities	<u>296,091</u>
 Debt, less current maturity	 <u>1,045,000</u>
 Total liabilities	 1,341,091
Net position	
Invested in capital assets	3,310,037
Unrestricted net position	1,332,564
Total net position	<u>4,642,601</u>
Total liabilities and net position	<u><u>\$ 5,983,692</u></u>

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

City of Needville, Texas**Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds****For the Year Ended September 30, 2018**

	Business-type Activities Enterprise Fund
Operating revenues	
Water and sewer charges	\$ 689,677
Other	40,756
Total operating revenues	<u>730,433</u>
Operating expenses	
General and administrative	596,330
Water	17,128
Sewer	112,601
Solid Waste	15,187
Depreciation	262,323
Total operating expenses	<u>1,003,568</u>
Operating income (loss)	(273,135)
Non-operating income	
Transfers in (out)	201,986
Investment earnings	8,123
Interest expense	(31,986)
Total non-operating income	<u>178,123</u>
Changes in net position	(95,012)
Net position - beginning of year	<u>4,737,613</u>
Net position - end of year	<u><u>\$ 4,642,601</u></u>

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

City of Needville, Texas
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2018

	Business-type Activities Enterprise Fund
Cash Flows Provided (Used) By Operating Activities	
Receipts from customers/others	\$ 761,685
Payments to suppliers	(131,605)
Payments to employees	(596,330)
Net cash provided (used) by operating activities	<u>33,750</u>
Cash Flows Provided (Used) By Non-Capital Financing Activities	
Operating transfers from (to) other funds	<u>201,986</u>
Net cash provided (used) by non-capital financing activities	<u>201,986</u>
Cash Flows Provided (Used) By Capital and Related Financing Activities	
Purchase of fixed assets	(310,404)
Principal payments on debt	(170,000)
Net cash provided (used) by capital and related financing activities	<u>(480,404)</u>
Cash Flows Provided (Used) By Investing Activities	
Interest expense	(31,986)
Interest earned on investments	<u>8,123</u>
Net cash provided (used) by investing activities	<u>(23,863)</u>
Net increase (decrease) in cash and cash equivalents	(268,531)
Cash and cash equivalents - beginning of year	<u>1,672,266</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,403,735</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating (Loss):	\$ (273,135)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	262,323
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(671)
Increase (decrease) in Accounts Payable and Accrued Liabilities	13,311
Increase (decrease) in Utility Deposits	31,922
Net Cash Provided by Operating Activities	<u><u>\$ 33,750</u></u>

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

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Needville, Texas 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 government's accounting policies are described below.

A. Reporting Entity

The City of Needville, Texas (the City) was incorporated in 1944 under the provisions of the State of Texas. The City operates as a Council-Administrator government. With few exceptions, all powers of the City are vested in an elective Council, which enacts local legislation, adopts budgets, determines policies, and appoints the City Attorney and the Municipal Court Judge. The residents also elect the City Mayor, who executes the laws and administers the government of the City. The City provides the following services to its citizens: public safety, street maintenance, solid waste collection and disposal, recreation programs, municipal court, community development, public improvements, water and sewer services, and general administrative services.

For financial reporting purposes, in conformance with generally accepted accounting principles, the City's financial statements include all funds, account groups, agencies, boards, commissions and other organizations over which the Council is financially accountable. In addition, component units which may be included are organizations for which the nature and the significance of their operational or financial relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Based upon the foregoing criteria, the following entity has been included in this report:

Development Corporation of Needville (DNC) – Although the DNC is legally separate from the City, the DCN is reported as if it were part of the primary government because the City provides the majority of its funding; and the DCN provides services almost exclusively for the benefit of the primary government. The DCN is authorized to act on behalf of the City in order to encourage the promotion and development of commercial, industrial and manufacturing enterprises within the area. The DCN is discretely presented; it is reported in a separate column to emphasize that it is legally separate from the primary government.

B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. The report information on all of the City's nonfiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, grants and other intergovernmental revenues. Business-type activities include operations that rely to a significant extent on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "operating grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If revenue is not program revenue, it is general revenue used to support all of the City's functions. Taxes are always general revenues.

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

B. Government-Wide and Fund Financial Statements (Continued)

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories; governmental and proprietary. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year.

Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

D. Fund Accounting

The City reports the following major governmental funds:

General Fund

The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Debt Service Fund

The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

The City reports the following major enterprise fund:

Utility Fund

Water, wastewater and sanitation services provided by the City are accounted for in the Utility Fund.

E. Other Accounting Policies

1. For the purpose of the statement of cash flows for proprietary funds, the City considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased. Investments are carried at fair value, which is based on quoted market price.
2. The City reports inventories of supplies as the lower of cost (first-in, first-out) or market. Supplies are recorded as expenditures when they are consumed.
3. 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.

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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.

4. It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits and compensatory time. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment. Upon retirement or termination, the employee is paid for accumulated, unpaid vacation at their then current rate of pay. All vacation and sick pay benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee retirement or termination.
5. Capital assets, which include land, infrastructure, buildings and improvements, machinery and equipment and construction in progress 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 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Infrastructure, buildings and improvements, and machinery and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

Infrastructure	20 – 40 years
Buildings and improvements	20 – 40 years
Machinery and equipment	10 years
Vehicles	5 years

6. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.
7. Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – Fund balance reported as “nonspendable” represents fund balance associated with inventory or prepaid items. The cash outlay for these types of items has already been made and, therefore, the resources represented by this fund balance classifications cannot be spent again.

Restricted Fund Balance – Fund balance reported as “restricted” represents amounts that can be spent only on the specific purposes stipulated by law or the external providers of those resources.

Committed Fund Balance – Fund balance reported as “committed” represents amounts that can be spent only for the specific purposes determined by a formal action of our City's highest level of decision-making authority.

Assigned Fund Balance – Fund balance reported as “assigned” represents amounts intended to be used for specific purposes, but not meeting the criteria to be reported as “committed” or “restricted” fund balance. Our governing body may grant to an administrator within the organization the authority to assign fund balance.

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

Unassigned Fund Balance – Fund balance reported as “unassigned” represents the residual classification of fund balance and includes all spendable amounts not contained within the other classifications. These amounts are unconstrained in that they may be spent for any purpose.

When an expenditure is incurred for a purpose 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.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY DATA

On or before the first day of June of each year, department and division leaders of the City submit requests for appropriations to the City Manager so that a budget is prepared. The budget is prepared by fund, department, and activity, and includes information on the past year, current year budget and requested appropriations for the next fiscal year.

Before August 31, the proposed budget is presented to the City Council for review. The City Council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City Manager or the revenue estimates must be changes by an affirmative vote of a majority of the City Council. Management may not amend the budget without Council approval. Expenditures may not legally exceed budgeted appropriations at the department level.

NOTE 3 – DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

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 in substantial compliance with the requirements of the Act and with local policies.

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

Policies Governing Deposits and Investments

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

Custodial Credit Risk – Deposits: This is risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2018 was covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

C. DELINQUENT TAXES RECEIVABLE

Allowances for uncollectible tax receivables within the General Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxed are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

Interfund transfers for the year ended September 30, 2018 consisted of the following amounts:

Transfer to Proprietary Fund from:	
Debt Service Fund	\$ 155,330
General Fund	201,986
	<u>\$ 357,316</u>

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 4 – CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2018, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Land	\$ 25,509	\$ 148,936	\$ -	\$ 174,445
Infrastructure	337,405	-	-	337,405
Buildings	582,886	-	-	582,886
Vehicles and equipment	762,794	68,848	-	831,642
Totals at historical cost	1,708,594	217,784	-	1,926,378
Less accumulated depreciation	(899,595)	(93,740)	-	(993,335)
Governmental activities capital assets, net	<u>\$ 808,999</u>	<u>\$ 124,044</u>	<u>\$ -</u>	<u>\$ 933,043</u>
Business-Type Activities:				
Buildings	\$ 32,889	\$ -	\$ -	\$ 32,889
Furniture and equipment	387,320	253,852	-	641,172
Water system	5,373,210	56,552	-	5,429,762
Sewer system	2,510,750	-	-	2,510,750
Totals at historical cost	8,304,169	310,404	-	8,614,573
Less accumulated depreciation	(3,827,213)	(262,323)	-	(4,089,536)
Business-type activities capital assets, net	<u>\$ 4,476,956</u>	<u>\$ 48,081</u>	<u>\$ -</u>	<u>\$ 4,525,037</u>

Depreciation expense was charged to business-type functions as follows:

Water system	\$ 190,587
Sewer system	71,736
Total Depreciation Expense	<u>\$ 262,323</u>

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5 – LONG-TERM DEBT

The following is a summary of long-term debt at September 30, 2018.

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
Business-Type Activities		
Certificates of obligation , Series 2012	2.24%	\$ 590,000
Certificates of obligation , Series 2015	2.39%	625,000
		<u>\$ 1,215,000</u>

A summary of changes in long-term debt for the year ended September 30, 2018 is as follows:

	<u>Amounts Outstanding 10/1/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Amounts Outstanding 9/30/2017</u>	<u>Due in One Year</u>
Business-Type Activities:					
Revenue bonds - 2012	\$ 700,000	\$ -	\$ (110,000)	\$ 590,000	\$ 110,000
Revenue bonds - 2015	685,000	-	(60,000)	625,000	60,000
Totals	<u>\$ 1,385,000</u>	<u>\$ -</u>	<u>\$ (170,000)</u>	<u>\$ 1,215,000</u>	<u>\$ 170,000</u>

NOTE 6 – DEBT SERVICE REQUIREMENTS – BONDS AND CAPITAL LEASES

Debt service requirements for the bonds and certificates of obligation are as follows:

	<u>Series 2012</u>		<u>Series 2015</u>		<u>Total</u>	
<u>Year</u>	<u>Certificates of Obligation</u>		<u>Certificates of Obligation</u>		<u>Certificates of Obligation</u>	
<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 110,000	\$ 13,216	\$ 60,000	\$ 14,937	\$ 170,000	\$ 28,153
2020	115,000	10,752	65,000	13,503	180,000	24,255
2021	120,000	8,176	65,000	11,950	185,000	20,126
2022	120,000	5,488	65,000	10,396	185,000	15,884
2023	125,000	2,800	70,000	8,843	195,000	11,643
2024-2027	-	-	300,000	18,284	300,000	18,284
Total	<u>\$ 590,000</u>	<u>\$ 40,432</u>	<u>\$ 625,000</u>	<u>\$ 77,913</u>	<u>\$ 1,215,000</u>	<u>\$ 118,345</u>

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7 – EMPLOYEE RETIREMENT SYSTEMS AND PLAN

Texas Municipal Retirement System (TMRS)

Plan Description

The City of Needville participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (The TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contribution, 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.

Plan provisions for the City were as follows:

	<u>Plan Year 2016</u>	<u>Plan Year 2017</u>
Employee deposit rate	7%	7%
Matching ratio (city to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated Service Credit	100 % Repeating, Transfers	100 % Repeating, Transfers
Annuity Increase (to retirees)	0% of CPI	0% of CPI

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

Employees covered by benefit terms.

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

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	10
Active employees	<u>18</u>
	37

Contributions

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

Employees for the City of Needville were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Needville were 3.84% and 3.90 % in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$31,130, and were equal to the required contributions.

The funding status as of December 31, 2017, the most recent actuarial valuations, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2017	\$ 2,740,431	\$ 2,662,584	102.92%	\$ (77,847)	\$ 810,683	-9.60%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1 percentage point less and 1 percentage point greater than the discount rate that was used (6.75%) in measuring the 2017 net pension liability.

1% Decrease 5.75%	Current Discount Rate 6.75%	1% Decrease 7.75%
<u>5.75%</u>	<u>6.75%</u>	<u>7.75%</u>

City's proportionate share of the net pension liability	\$ 231,422	\$ (77,847)	\$ (339,970)
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CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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

At September 30, 2018, the City reported an asset of \$77,847 for its proportionate share of the TMRS's net pension liability. This asset reflects an addition for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the collective net pension liability	\$ (77,847)
States's proportionate share of the net pension liability associated with the City	<u>2,740,431</u>
Total	<u><u>\$ 2,662,584</u></u>

The net pension liability was measured as of December 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

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

At September 30, 2018, the City of Needville, Texas reported its proportionate share of the TMRS' deferred/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 4,379	\$ 3,390
Changes in Actuarial Assumptions	3,675	-
Differences Between Projected and Actual Investment Earnings	68,258	136,533
Contributions Made Subsequent to Measurement Date	25,978	-
Total	<u><u>\$ 102,290</u></u>	<u><u>\$ 139,923</u></u>

The following is deferred outflows and deferred inflows of resources, by year, to be recognized in future pension expense as follows:

Year Ended	Balance
2018	\$ 7,883
2019	(2,682)
2020	(34,700)
2021	(34,112)
2022	-
Thereafter	-
	<u><u>\$ (63,611)</u></u>

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

At September 30, 2018, the City of Needville, Texas recognized pension expense of \$53,611 in the government – wide Statement of Activities.

Texas Municipal Retirement System (TMRS - Supplemental Death Benefits Fund

Plan Description

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

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

The City of Needville Volunteer Firemen are covered by a separate pension plan, therefore they are not included in the Texas Municipal Retirement System plan.

Employees covered by benefit terms.

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

Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	3
Active employees	18
	<hr/> 29

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net OPEB liability if the discount rate used was 1 percentage point less and 1 percentage point greater than the discount rate that was used (3.31%) in measuring the 2017 net pension liability.

	1% Decrease 2.31%	Current Discount Rate 3.31%	1% Decrease 4.31%
City's proportionate share of the total OPEB liability	\$ 82,386	\$ 70,116	\$ 60,295

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

The net OPEB liability was measured as of December 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's contributions to the OPEB plan relative to the contributions of all employees to the plan for the period of October 31, 2017 through September 30, 2018.

There were no changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

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

At September 30, 2018, the City of Needville, Texas reported its proportionate share of the TMRS' deferred/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ -
Changes in Actuarial Assumptions	4,889	1,086
Differences Between Projected and Actual Investment Earnings	-	-
Contributions Made Subsequent to Measurement Date	2,459	-
Total	<u>\$ 7,348</u>	<u>\$ 1,086</u>

The following is deferred outflows and deferred inflows of resources, by year, to be recognized in future pension expense as follows:

Year Ended	Balance
2018	\$ 1,086
2019	1,086
2020	1,086
2021	545
2022	-
Thereafter	-
	<u>\$ 3,803</u>

At September 30, 2018, the City of Needville, Texas recognized pension expense of \$63,854 in the government – wide Statement of Activities.

NOTE 9 – ANALYSIS OF SPECIFIC DEPOSIT AND INVESTMENT RISKS

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

Credit Risk

The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not exposed to credit risk.

CITY OF NEEDVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

Custodial Credit Risk

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

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

At year end, the City was not exposed to custodial credit risk.

Concentration of Credit Risk

The risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

Interest Rate Risk

The risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

Foreign Currency Risk

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

NOTE 10 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses obtaining property, workers compensation, health and liability insurance through commercial insurance carriers. The City has not had any significant reduction in insurance coverage, and the amounts of insurance settlements have not exceeded insurance coverage during the previous year. At year end, the City did not have any significant claims.

NOTE 11 - CONTINGENT LIABILITIES

Amounts received or receivable from Grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial. The City is also subject to contingent liabilities for possible lawsuits that may be filed which, at year-end, have not been filed.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Needville, Texas**Statement of Revenues, Expenditures and Changes in Fund Balances****Budget (GAAP Basis) and Actual - General Fund****For the Year Ended September 30, 2018**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 664,800	\$ 651,878	\$ 621,202	(30,676)
Sales taxes	625,000	625,000	633,013	8,013
Charges for services	270,000	265,410	266,719	1,309
Franchise and local taxes	138,500	119,112	139,245	20,133
Fines and forfeitures	85,000	67,591	67,591	-
Licenses and permits	40,750	40,357	56,815	16,458
Investment income	10,000	10,000	33,619	23,619
Other	18,550	18,550	36,096	17,546
Total revenues	<u>1,852,600</u>	<u>1,797,898</u>	<u>1,854,300</u>	<u>56,402</u>
Expenditures				
General government				
Mayor and council	23,100	32,937	34,524	(1,587)
General government	871,492	1,128,395	1,054,528	73,867
Municipal court	51,400	55,574	34,561	21,013
Total general government	<u>945,992</u>	<u>1,216,906</u>	<u>1,123,613</u>	<u>93,293</u>
Public safety				
Police	577,225	600,809	573,289	27,520
Fire	10,800	10,800	10,500	300
Total public safety	<u>588,025</u>	<u>611,609</u>	<u>583,789</u>	<u>27,820</u>
Public works				
Streets and drainage	162,500	163,143	49,217	113,926
Total expenditures	<u>1,696,517</u>	<u>1,991,658</u>	<u>1,756,619</u>	<u>235,039</u>
Revenues over (under) expenditures	156,083	(193,760)	97,681	291,441
Other Financing Sources (Uses)				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>(357,316)</u>	<u>(357,316)</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(357,316)</u>	<u>(357,316)</u>
Net change in fund balance	<u>\$ 156,083</u>	<u>\$ (193,760)</u>	<u>(259,635)</u>	<u>\$ (65,875)</u>
Beginning fund balance			<u>2,291,962</u>	
Ending fund balance			<u>\$ 2,032,327</u>	

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF NEEDVILLE, TEXAS
SCHEDULE OF THE CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	-0.0284068	0.0371257	0.0307272	-0.0444451
City's proportionate share of the net pension liability (asset)	\$ (77,847)	\$ 89,094	\$ 69,412	\$ (101,090)
State's proportionate share of the net pension liability (asset) associated with the City	<u>2,740,431</u>	<u>2,399,795</u>	<u>2,258,973</u>	<u>2,274,492</u>
Total	<u>\$ 2,662,584</u>	<u>\$ 2,488,889</u>	<u>\$ 2,328,385</u>	<u>\$ 2,173,402</u>
City's covered-employee payroll	\$ 810,683	\$ 771,407	\$ 689,514	\$ 643,485
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-9.60%	11.55%	10.07%	-15.71%
Plan fiduciary net position as a percentage of the total pension liability	102.92%	96.42%	97.02%	104.65%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CITY OF NEEDVILLE, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CITY CONTRIBUTIONS
LAST TEN FISCAL YEARS*

	2018	2017	2016	2015
Actuarially determined contributions	\$ 31,130	\$ 25,148	\$ 30,615	\$ 29,407
Contributions in relation to the actuarially determined contributions	(31,130)	(25,148)	(30,615)	(29,407)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 810,683	\$ 771,407	\$ 689,514	\$ 643,485
Contributions as a percentage of covered employee payroll	3.84%	3.26%	4.44%	4.57%

Notes to Schedule of Contributions:

Valuation Date: 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	20 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	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Other information:	There were no benefit changes during the year.

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CITY OF NEEDVILLE, TEXAS
SCHEDULE OF THE CITY'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

	Measurement Year 2017
City's proportion of the net OPEB liability (asset)	0.0000000
City's proportionate share of the net OPEB liability (asset)	\$ 70,116
State's proportionate share of the net OPEB liability (asset) associated with the City	<u>-</u>
Total	<u>\$ 70,116</u>
City's covered-employee payroll	\$ 810,683
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	8.65%
Plan fidiciary net position as a percentage of the total OPEB liability	0.00%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CITY OF NEEDVILLE, TEXAS
SCHEDULE OF CITY CONTRIBUTIONS-OPEB
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 3,486	\$ 849
Contributions in relation to the contractually required contribution	<u>(3,486)</u>	<u>(849)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 810,683	\$ 771,407
Contributions as a percentage of covered-employee payroll	0.43%	0.11%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CITY OF NEEDVILLE, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data:

- a. Prior to the end of the current fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended at department and fund level only by approval of a majority of the members of the City Council. Amendments are presented to the Council at its regular meetings.

Each amendment must have Council approval. Such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/department level. Budgeted amounts are as amended by the City Council. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms

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

Changes of assumptions

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

INTERNAL CONTROL AND COMPLIANCE

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

To the Honorable Mayor
Members of the City Council
City of Needville, 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, the business -- type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Needville, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Needville's basic financial statements, and have issued our report thereon dated June 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Needville, 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 Needville, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Needville, 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Talbot & Co., PC

La Grange, TX
June 28, 2019