

CITY OF TIOGA, TEXAS

Audited Financial Statements

September 30, 2018

Joseph E. Madden
Certified Public Accountant

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Independent Auditor's Report

December 10, 2018

The Honorable Mayor and
Members of the City Council
City of Tioga, Texas

I have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component unit, and each major fund of the City of Tioga, Texas, (City) as of and for the year then ended September 30, 2018, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my 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 units and each major fund, and the aggregate remaining fund information of the City of Tioga, Texas, as of September 30, 2018, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued my report, dated December 10, 2018, on my consideration of the internal control over financial reporting of the City of Tioga, Texas, and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Joseph E. Madden
Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Tioga, Texas

Management's Discussion and Analysis

September 30, 2018

As management of the City of Tioga, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$2.9 million (net assets). Of this amount, \$552 thousand (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$29 thousand this fiscal year. Governmental Activities net assets decreased by \$82 thousand and Business-type Activities net assets increased by \$111 thousand.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$758 thousand, an increase of \$4 thousand. Of this amount, \$757 thousand is unreserved and available for spending subject to the City's self-imposed limitations.
- At year-end, the undesignated and unreserved fund balance for the General Fund was \$758 thousand. This represents over 128% of general fund expenditures. On a current financial resources basis, total fund balance for the General Fund increased by \$4 thousand.
- The City's total debt decreased by \$283 thousand during the fiscal year. The City's bonded debt decreased by \$51 thousand.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

The statement of net assets presents information on all of the City's 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 is improving or deteriorating. The statement of net assets combines and consolidates governmental funds current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial condition of the City.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. 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). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

City of Tioga, Texas
Management's Discussion and Analysis
September 30, 2018

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the police, fire, public services and operations, public works and general administration. Property taxes, sales taxes and franchise fees finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system's activity are reported here.
- Component units – The City includes two separate legal entities in its report - the industrial development fund (TIDCO) and the economic development fund (TEDCO). Although legally separate, these "component units" are organized exclusively for the purposes of benefiting and accomplishing public purposes of and to act on behalf of the City and the specific purposes for which the Corporation is organized.

Fund Financial Statements

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

Governmental funds – The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

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

Proprietary funds – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City has only one proprietary fund which is used to account for the City's water and sewer system financial activities.

Reporting the City's Fiduciary Responsibilities

The Mayor is the trustee, or fiduciary, for the Roark Memorial Trust created November 18, 1976. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The activities of these funds are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found immediately following the basic financial statements.

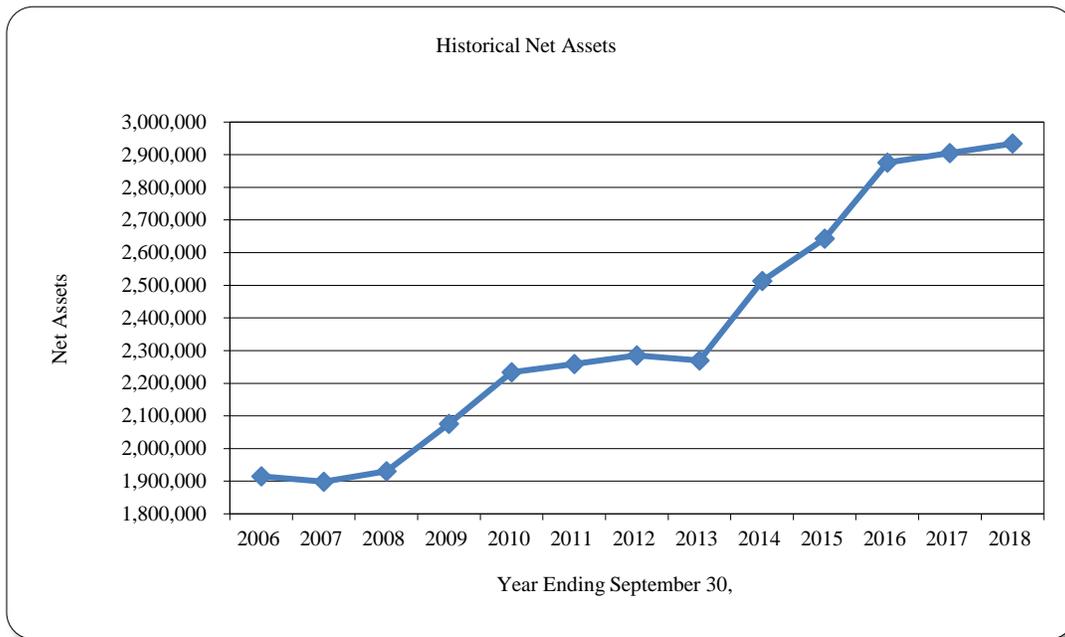
Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Tioga, assets exceeded liabilities by \$2.9 million as of September 30, 2018.

**City of Tioga, Texas
Management's Discussion and Analysis
September 30, 2018**

City of Tioga's Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 806,276	\$ 803,493	\$ 994,391	\$ 1,568,168	\$ 1,800,667	\$ 2,371,661
Capital Assets	964,607	711,456	2,457,724	1,794,363	3,422,331	2,505,819
Total Assets	1,770,883	1,514,949	3,452,115	3,362,531	5,222,998	4,877,480
Current Liabilities	121,935	55,637	147,238	117,322	269,173	172,959
Noncurrent Liabilities	285,854	14,222	1,734,000	1,785,000	2,019,854	1,799,222
Total Liabilities	407,789	69,859	1,881,238	1,902,322	2,289,027	1,972,181
Invested in Capital Assets, Net of Related Debt	847,434	657,564	1,077,506	1,107,733	1,924,940	1,765,297
Restricted Net Assets	91,672	62,999	364,866	278,225	456,538	341,224
Unrestricted Net Assets	423,988	724,527	128,505	74,251	552,493	798,778
Total Net Assets	\$ 1,363,094	\$ 1,445,090	\$ 1,570,877	\$ 1,460,209	\$ 2,933,971	\$ 2,905,299



The largest portion of the City's net assets (66%) reflects its investment in capital assets (e.g. land, buildings, equipment, improvements, infrastructure and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Analysis of the City's Operations

The City's general revenues increased when compared to the prior year by \$82 thousand or 21%. Property tax revenues increased by \$44 thousand. The following table provides a summary of the City's operations for the year ended September 30, 2018:

**City of Tioga, Texas
Management's Discussion and Analysis
September 30, 2018**

**Changes in Net Assets
Governmental Activities**

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>
Program Revenues			
Charges for Services	\$ 88,563	\$ 67,987	\$ 20,576
Operating Grants and Contributions	8,990	9,281	(291)
Capital Grants and Contribution	8,931	15,923	(6,992)
General Revenues			
Property Taxes	328,295	283,906	44,389
Penalties and Interest	5,165	4,776	389
Franchise Taxes	30,538	28,186	2,352
Sales Taxes	78,438	61,915	16,523
Interest Income	4,403	4,262	141
Other	33,729	12,686	21,043
Total Revenues	<u>587,052</u>	<u>488,922</u>	<u>98,130</u>
Expenses			
General Government	161,775	131,525	30,250
Public Works	153,261	141,815	11,446
Public Safety	325,604	228,251	97,353
Municipal Court	26,039	27,847	(1,808)
Interest on Long-Term Debt	2,369	3,777	(1,408)
Total Expenses	<u>669,048</u>	<u>533,215</u>	<u>135,833</u>
Increase in Net Assets Before Transfers	(81,996)	(44,293)	(37,703)
Transfers	--	--	-
Increase/(Decrease) in Net Assets	(81,996)	(44,293)	(37,703)
Net Assets - Beginning	<u>1,445,090</u>	<u>1,489,383</u>	<u>(44,293)</u>
Net Assets - Ending	<u>\$ 1,363,094</u>	<u>\$ 1,445,090</u>	<u>\$ (81,996)</u>

Capital Assets

At the end of the fiscal year 2018, the City had \$3.3 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, infrastructure, and water and sewer lines.

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

- 580SN Backhoe \$94,589
- Water/Sewer System Improvements \$677,592

Prior to GASB 34, cities were not required to capitalize infrastructure assets, as they had no value to anyone other than the City itself. With the implementation of GASB 34, infrastructure assets are being capitalized on a prospective approach. Therefore, the amount listed above as infrastructure only represents the amount of assets put in service since October 1, 2003.

City of Tioga, Texas
Management's Discussion and Analysis
September 30, 2018

The following table provides a summary of the City's capital assets for the year ended September 30, 2018.

	Capital Assets at Year-End					
	Governmental		Business-type		Totals	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Land and Improvements	\$ 213,322	\$ 213,322	\$ 5,564	\$ 5,564	\$ 218,886	\$ 218,886
Buildings and Improvements	62,683	70,799	--	--	62,683	70,799
Water System	--	--	1,638,478	1,001,607	1,638,478	1,001,607
Sewer System	--	--	624,130	685,474	624,130	685,474
Equipment	293,096	237,120	105,403	16,392	398,499	253,512
Infrastructure	395,506	190,216	--	--	395,506	190,216
Totals	\$ 964,607	\$ 711,457	\$ 2,373,575	\$ 1,709,037	\$ 3,338,182	\$ 2,420,494

Debt

At the year-end, the City had \$1.79 million in bonded debt outstanding as compared to \$1.84 million at the end of the prior fiscal year, a decrease of 3% as shown in the following table. The entire amount of bonded debt is backed by the full faith and credit of the City.

	Outstanding Debt					
	Governmental		Business-type		Totals	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Certificates of Obligation	\$ --	\$ 25,000	\$ 1,645,000	\$ 1,665,000	\$ 1,645,000	\$ 1,690,000
Revenue Bonds	--	--	140,000	146,000	140,000	146,000
Totals	\$ --	\$ 25,000	\$ 1,785,000	\$ 1,811,000	\$ 1,785,000	\$ 1,836,000

Economic Factors and Next Year's Budgets and Rates

In the 2018-2019 budget, General Fund revenues and transfers are budgeted to increase 21% from the 2017-2018 actual revenues with property taxes making up about 62% of the total. Ad valorem tax revenues are determined by two major factors: the total assessed property value established by the Grayson County Appraisal District and the tax rate set by the City Council. The following table shows the changes in property values and tax rates:

Year Ending	Market Value (after Exemptions)	Change From Prior Year	Tax Rate (Per \$100)	Change From Prior Year
9/30/2018	\$ 54,114,102	16.1%	\$ 0.540992	0.0%
9/30/2017	46,624,778	15.8%	0.540992	-1.2%
9/30/2016	40,261,707	1.6%	0.547391	-2.8%
9/30/2015	39,612,098	-2.8%	0.562945	2.4%
9/30/2014	40,758,272	3.5%	0.549960	12.4%

Contacting the City's Financial Management

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Secretary at: City of Tioga, PO Box 206, Tioga, TX 76271.

Craig Jezek, Mayor

BASIC FINANCIAL STATEMENTS

CITY OF TIOGA, TEXAS
STATEMENT OF NET ASSETS

September 30, 2018

(With Comparative Totals for September 30, 2017)

	Primary Government			
	Governmental	Business-type	Totals	
	Activities	Activities	2018	2017
Assets				
Cash and Cash Equivalents	\$ 689,626	\$ 586,808	\$ 1,276,434	\$ 1,968,801
Receivables:				
Sales Taxes	15,598	--	15,598	12,574
Property Taxes	9,380	--	9,380	9,841
Accounts	--	42,717	42,717	39,221
Restricted Cash and Cash Equivalents	91,672	364,866	456,538	341,224
Capital Assets				
Non-Depreciable	213,322	5,564	218,886	218,886
Depreciable (Net)	751,285	2,368,011	3,119,296	2,201,607
Bond Issuance Cost, Net	--	84,149	84,149	85,326
Total Assets	1,770,883	3,452,115	5,222,998	4,877,480
Liabilities				
Accounts Payable and Accrued Expenses	36,583	29,287	65,870	29,271
Customer Deposits	--	47,861	47,861	46,686
Accrued Interest Payable	--	12,214	12,214	22,868
Noncurrent Liabilities				
Due Within One Year				
Accumulated Vacation Leave Payable	8,033	6,876	14,909	8,463
Bonds Payable	--	6,000	6,000	6,000
Certificates of Obligations	--	45,000	45,000	45,000
Loans Payable	77,319	--	77,319	14,671
Due in More Than One Year				
Bonds Payable	--	134,000	134,000	140,000
Certificates of Obligations	--	1,600,000	1,600,000	1,645,000
Loans Payable	285,854	--	285,854	14,222
Total Liabilities	407,789	1,881,238	2,289,027	1,972,181
Net Assets				
Invested in Capital Assets, Net of Related Debt	847,434	1,077,506	1,924,940	1,765,297
Restricted For:				
Debt Service	91,672	364,866	456,538	341,224
Unrestricted	423,988	128,505	552,493	798,778
Total Net Assets	\$ 1,363,094	\$ 1,570,877	\$ 2,933,971	\$ 2,905,299

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

Component Units	
Totals	
2018	2017
\$ 329,509	\$ 274,474
15,598	12,574
--	--
--	--
--	--
49,928	49,928
50,849	54,626
--	--
<u>445,884</u>	<u>391,602</u>
--	--
--	--
--	--
--	--
--	--
--	--
--	--
--	--
<u>100,777</u>	<u>104,554</u>
--	--
<u>345,107</u>	<u>287,048</u>
<u>\$ 445,884</u>	<u>\$ 391,602</u>

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

CITY OF TIOGA, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018
(With Comparative Totals for September 30, 2017)

Function/Program Activities	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 161,775	\$ 22,429	\$ --	\$ 8,931
Public Works	153,261	--	--	--
Public Safety	325,604	--	8,990	--
Municipal Court	26,039	66,134	--	--
Interest on Long-Term Debt	2,369	--	--	--
Total Governmental Activities	669,048	88,563	8,990	8,931
Business-type Activities				
Water and Sewer	594,929	683,230	--	--
Total Business-type Activities	594,929	683,230	--	--
Total Primary Government	\$ 1,263,977	\$ 771,793	\$ 8,990	\$ 8,931
Component Units				
Industrial Development	\$ 5,763	\$ --	\$ --	\$ --
Economic Development	19,633	--	--	--
Total Component Units	\$ 25,396	\$ --	\$ --	\$ --

General Revenues

Property Taxes
Penalties and Interest
Franchise Taxes
Sales & Hotel Taxes
Interest Income
Other

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

Net (Expenses)/Revenue and Changes in Net Assets					
Primary Government				Component Units	
Governmental Activities	Business-type Activities	Totals		Totals	
		2018	2017	2018	2017
\$ (130,415)	\$ --	\$ (130,415)	\$ (98,076)	\$ --	\$ --
(153,261)	--	(153,261)	(141,815)	--	--
(316,614)	--	(316,614)	(218,970)	--	--
40,095	--	40,095	22,614	--	--
(2,369)	--	(2,369)	(3,777)	--	--
<u>(562,564)</u>	<u>--</u>	<u>(562,564)</u>	<u>(440,024)</u>	<u>--</u>	<u>--</u>
--	88,301	88,301	70,706	--	--
--	88,301	88,301	70,706	--	--
<u>\$ (562,564)</u>	<u>\$ 88,301</u>	<u>\$ (474,263)</u>	<u>\$ (369,318)</u>	<u>\$ --</u>	<u>\$ --</u>
\$ --	\$ --	\$ --	\$ --	\$ (5,763)	\$ (59,863)
--	--	--	--	(19,633)	(11,246)
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ (25,396)</u>	<u>\$ (71,109)</u>
\$ 328,295	\$ --	\$ 328,295	\$ 283,906	\$ --	\$ --
5,165	--	5,165	4,776	--	--
30,538	--	30,538	28,186	--	--
78,438	--	78,438	61,915	78,438	61,915
4,403	1,293	5,696	4,884	468	492
33,729	21,074	54,803	14,746	772	150
--	--	--	--	--	--
<u>480,568</u>	<u>22,367</u>	<u>502,935</u>	<u>398,413</u>	<u>79,678</u>	<u>62,557</u>
(81,996)	110,668	28,672	29,095	54,282	(8,552)
<u>1,445,090</u>	<u>1,460,209</u>	<u>2,905,299</u>	<u>2,876,204</u>	<u>391,602</u>	<u>400,154</u>
<u>\$ 1,363,094</u>	<u>\$ 1,570,877</u>	<u>\$ 2,933,971</u>	<u>\$ 2,905,299</u>	<u>\$ 445,884</u>	<u>\$ 391,602</u>

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

CITY OF TIOGA, TEXAS
BALANCE SHEET
Governmental Funds
September 30, 2018
(With Comparative Totals for September 30, 2017)

	<u>General</u>	<u>Debt Service</u>	<u>Totals</u>	
			<u>2018</u>	<u>2017</u>
Assets				
Cash and Cash Equivalents	\$ 689,626	\$ --	\$ 689,626	\$ 718,079
Receivables:				
Sales Taxes	15,598	--	15,598	12,574
Property Taxes	9,380	--	9,380	9,841
Restricted Cash and Cash Equivalents	89,272	2,400	91,672	62,998
Total Assets	<u>\$ 803,876</u>	<u>\$ 2,400</u>	<u>\$ 806,276</u>	<u>\$ 803,492</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable and Accrued Expenses	\$ 36,583	\$ --	\$ 36,583	\$ 11,034
Deferred Revenue	9,380	--	9,380	10,477
Total Liabilities	<u>45,963</u>	<u>--</u>	<u>45,963</u>	<u>21,511</u>
Fund Balances				
Reserved For:				
Debt Service	--	2,400	2,400	28,516
Unreserved	757,913	--	757,913	753,465
Total Fund Balances	<u>757,913</u>	<u>2,400</u>	<u>760,313</u>	<u>781,981</u>
Total Liabilities and Fund Balances	<u>\$ 803,876</u>	<u>\$ 2,400</u>	<u>\$ 806,276</u>	<u>\$ 803,492</u>

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

CITY OF TIOGA, TEXAS
Reconciliation of the Governmental Funds Balance Sheet
to Statement of Net Assets
For the Year Ended September 30, 2018
(With Comparative Totals for September 30, 2017)

	2018	2017
Total Fund Balance - Total Governmental Funds	\$ 760,313	\$ 781,981
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	964,607	711,457
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	9,380	10,477
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.	--	(575)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.		
Certificates of Obligation	--	(25,000)
Loans Payable	(363,173)	(28,893)
Compensated Absences	(8,033)	(4,357)
Net Assets of Governmental Activities	\$ 1,363,094	\$ 1,445,090

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

CITY OF TIOGA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
Year Ended September 30, 2018
(With Comparative Totals for the Year Ending September 30, 2017)

	General Fund	Debt Service Fund	Totals	
			2018	2017
Revenues				
Property Taxes	\$ 328,756	\$ --	\$ 328,756	\$ 284,761
Penalties and Interest	5,165	--	5,165	4,776
Franchise Taxes	30,538	--	30,538	28,186
Sales & Hotel Taxes	78,438	--	78,438	61,915
Permits and Fees	22,429	--	22,429	17,526
Municipal Court Fines	66,134	--	66,134	50,461
Fire Department Contract	8,990	--	8,990	8,645
Interest Income	4,368	34	4,402	4,262
Miscellaneous	34,366	--	34,366	12,686
Grant Revenue	8,931	--	8,931	15,923
Total Revenues	<u>588,115</u>	<u>34</u>	<u>588,149</u>	<u>489,141</u>
Expenditures				
Current Operations:				
General Government	109,321	--	109,321	102,724
Public Works	138,149	--	138,149	127,092
Public Safety	259,761	--	259,761	178,053
Municipal Court	25,701	--	25,701	27,670
Capital Outlay	362,222	--	362,222	6,670
Debt Service:				
Principal	29,651	25,000	54,651	34,005
Interest	1,794	1,150	2,944	4,237
Total Expenditures	<u>926,599</u>	<u>26,150</u>	<u>952,749</u>	<u>480,451</u>
Excess (Deficiency) of Revenues over Expenditures	(338,484)	(26,116)	(364,600)	8,690
Other Financing Sources (Uses)				
Loans Payable	342,932	--	342,932	--
Net Operating Transfers (to)/from Other Funds	--	--	--	--
Total Other Financing Sources (Uses)	<u>342,932</u>	<u>--</u>	<u>342,932</u>	<u>--</u>
Net Change in Fund Balances	4,448	(26,116)	(21,668)	8,690
Fund Balance - Beginning	<u>753,465</u>	<u>28,516</u>	<u>781,981</u>	<u>773,291</u>
Fund Balance - Ending	<u>\$ 757,913</u>	<u>\$ 2,400</u>	<u>\$ 760,313</u>	<u>\$ 781,981</u>

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

CITY OF TIOGA, TEXAS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2018
(With Comparative Totals for the Year Ending September 30, 2017)

	2018	2017
Net Change in Fund Balances - Total Governmental Funds	\$ (21,668)	\$ 8,690
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$362,222) exceeded depreciation (\$109,071) in the current period.	253,151	(84,514)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(461)	(218)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consume the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items. The details of this amount are as follows:		
Debt Issued	(363,932)	--
Principal Repayments	54,651	34,005
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.	(3,737)	(2,256)
Change in Net Assets of Governmental Activities	\$ (81,996)	\$ (44,293)

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

CITY OF TIOGA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Governmental Funds
Year Ended September 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Property Taxes	\$ 325,000	\$ 325,000	\$ 328,756	\$ 3,756
Penalties and Interest	3,000	3,000	5,165	2,165
Franchise Taxes	34,000	34,000	30,538	(3,462)
Sales & Hotel Taxes	57,000	57,000	78,438	21,438
Permits and Fees	18,000	18,000	22,429	4,429
Municipal Court Fines	43,000	43,000	66,134	23,134
Fire Department Contract	8,170	8,170	8,990	820
Interest Income	4,500	4,500	4,402	(98)
Miscellaneous	9,350	9,350	34,366	25,016
Grant Revenue	741	741	8,931	8,190
Total Revenues	502,761	502,761	588,149	85,388
Expenditures				
Current Operations:				
General Government	104,024	104,024	109,321	(5,297)
Public Works	138,839	138,839	138,149	690
Public Safety	288,479	288,479	259,761	28,718
Municipal Court	28,333	28,333	25,701	2,632
Capital Outlay	--	--	362,222	(362,222)
Debt Service:				
Principal	29,396	29,396	54,651	(25,255)
Interest	1,090	1,090	2,944	(1,854)
Total Expenditures	590,161	590,161	952,749	(362,588)
Excess (Deficiency) of Revenues over Expenditures	(87,400)	(87,400)	(364,600)	(277,200)
Other Financing Sources (Uses)				
Loans Payable	--	--	342,932	(342,932)
Net Operating Transfers (to)/from Other Funds	--	--	--	--
Total Other Financing Sources (Uses)	--	--	342,932	342,932
Net Change in Fund Balances	\$ (87,400)	\$ (87,400)	(21,668)	\$ 65,732
Fund Balance - Beginning			781,981	
Fund Balance - Ending			\$ 760,313	

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

CITY OF TIOGA, TEXAS
STATEMENT OF NET ASSETS
Proprietary Funds
September 30, 2018
(With Comparative Totals for September 30, 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 586,808	\$ 1,250,722
Accounts Receivable	42,717	39,221
Total Current Assets	<u>629,525</u>	<u>1,289,943</u>
Noncurrent Assets		
Restricted Cash and Cash Equivalents	364,866	278,225
Capital Assets		
Land	5,564	5,564
Water Distribution System, Net	888,610	929,331
Sewer System, Net	624,130	685,474
Vehicles and Equipment, Net	105,403	16,392
Construction in Progress	749,868	72,276
Bond Issue Costs, Net	84,149	85,326
Total Noncurrent Assets	<u>2,822,590</u>	<u>2,072,588</u>
Total Assets	<u>3,452,115</u>	<u>3,362,531</u>
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Expenses	29,287	18,237
Customer Deposits	47,861	46,686
Total Current Liabilities	<u>77,148</u>	<u>64,923</u>
Current Liabilities Payable From Restricted Assets		
Accrued Interest Payable	12,214	22,293
Bonds Payable - Current Portion	6,000	6,000
Certificates of Obligation - Current Portion	45,000	20,000
Total Current Liabilities Payable From Restricted Assets	<u>63,214</u>	<u>48,293</u>
Noncurrent Liabilities		
Accumulated Vacation Leave Payable	6,876	4,106
Long Term Liabilities - Net of Current	1,734,000	1,785,000
Total Noncurrent Liabilities	<u>1,740,876</u>	<u>1,789,106</u>
Total Liabilities	<u>1,881,238</u>	<u>1,902,322</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,077,506	1,107,733
Restricted For:		
Debt Service	364,866	278,225
Unrestricted	128,505	74,251
Total Net Assets	<u>\$ 1,570,877</u>	<u>\$ 1,460,209</u>

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

CITY OF TIOGA, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
Proprietary Funds
Year Ended September 30, 2018
(With Comparative Totals for the Years Ending September 30, 2017)

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Utility Charges	\$ 651,055	\$ 567,881
Operating Expenses		
Personnel Expenses	188,901	175,825
Trash Collection	90,781	88,098
State Fees and Permits	2,488	5,110
Materials and Supplies	50,445	23,985
Office Supplies and Postage	6,244	9,801
Repairs and Maintenance	15,925	4,671
Vehicle and Backhoe Expenses	11,957	6,664
Utilities and Telephone	50,391	58,077
Water Samples and Testing	6,393	8,258
Insurance	24,448	10,634
Professional Fees	2,933	13,613
Other Expenses	1,269	1,522
Depreciation and Amortization	108,821	113,574
Total Operating Expenses	<u>560,996</u>	<u>519,832</u>
Operating Income (Loss)	<u>90,059</u>	<u>48,049</u>
Nonoperating Revenues (Expenses)		
Gain from Disposition of Fixed Assets	18,500	--
Tap Fees	34,750	18,000
Grant Revenue	--	61,225
Interest Income	1,293	622
Interest Expense	(33,934)	(54,508)
Total Nonoperating Revenues (Expenses)	<u>20,609</u>	<u>25,339</u>
Income (Loss) Before Contributions and Transfers	110,668	73,388
Capital Contributions	--	--
Transfers In/(Out)	--	--
Change In Net Assets	<u>110,668</u>	<u>73,388</u>
Total Net Assets - Beginning	1,460,209	1,386,821
Total Net Assets - Ending	<u><u>\$ 1,570,877</u></u>	<u><u>\$ 1,460,209</u></u>

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

CITY OF TIOGA, TEXAS
STATEMENT OF CASH FLOWS
Proprietary Funds
Year Ended September 30, 2018
(With Comparative Totals for the Years Ending September 30, 2017)

	2018	2017
Cash Flows from Operating Activities		
Receipts From Customers	\$ 683,484	\$ 585,258
Payments to Suppliers	(252,224)	(226,961)
Payments to Employees	(186,131)	(175,504)
Net Cash Provided (Used) by Operating Activities	245,129	182,793
 Cash Flows from Non-Capital Financing Activities		
Transfers to Other Funds	--	--
Net Cash Provided (Used) by Non-Capital Financing Activities	--	--
 Cash Flows from Capital and Related Financing Activities		
Acquisition of Fixed Assets	(772,182)	(67,067)
Gain from Dispositon of Fixed Assets	18,500	--
Grant Revenues	--	61,225
Principal Payments on Debt	(26,000)	(26,000)
Interest Payments on Debt	(44,013)	(50,184)
Net Cash Provided (Used) by Capital and Related Financing Activities	(823,695)	(82,026)
 Cash Flows from Investing Activities		
Interest Income	1,293	622
Net Cash Provided by Investing Activities	1,293	622
 Net Increase in Cash and Cash Equivalents	(577,273)	101,389
 Cash and Cash Equivalents - Beginning	1,528,947	1,427,558
Cash and Cash Equivalents - Ending	\$ 951,674	\$ 1,528,947
 Reconciliation of Operating Income/(Loss) to Net Cash Provided by Operating Activities:		
Operating Income/(Loss)	\$ 90,059	\$ 48,049
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	108,821	113,574
Tap Fees	34,750	18,000
Change in Assets and Liabilites:		
Accounts Receivable	(3,496)	(2,613)
Accounts Payable and Accrued Expenses	11,050	3,472
Customer Deposits	1,175	1,990
Accrued Vacation Leave Payable	2,770	321
Total Adjustments	155,070	134,744
Net Cash Provided (Used) by Operating Activities	\$ 245,129	\$ 182,793

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

CITY OF TIOGA, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds
September 30, 2018

	Private Purpose Trust
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 23,203
Total Current Assets	23,203
Total Assets	23,203
Liabilities	--
Net Assets	
Restricted For:	
Cemetery Maintenance	23,203
Unrestricted	--
Total Net Assets	\$ 23,203

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

CITY OF TIOGA, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Fiduciary Funds
Year Ended September 30, 2018

	Private Purpose Trust
Additions	
Interest	\$ 70
Total Additions	70
 Deductions	
Cemetery Maintenance	70
Total Deductions	70
 Change In Net Assets	 --
 Total Net Assets - Beginning	 23,203
Total Net Assets - Ending	\$ 23,203

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

**CITY OF TIOGA, TEXAS
STATEMENT OF NET ASSETS
Component Units
September 30, 2018**

	<u>Industrial Development</u>	<u>Economic Development</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 220,541	\$ 108,968
Sales Tax Receivable	<u>7,799</u>	<u>7,799</u>
Total Current Assets	228,340	116,767
Capital Assets		
Land and Land Improvements	<u>--</u>	<u>100,777</u>
Total Assets	<u>228,340</u>	<u>217,544</u>
Liabilities		
Long-Term Liabilities		
Current	--	--
Non-Current	<u>--</u>	<u>--</u>
Total Liabilities	<u>--</u>	<u>--</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	--	100,777
Unrestricted	<u>228,340</u>	<u>116,767</u>
Total Net Assets	<u><u>\$ 228,340</u></u>	<u><u>\$ 217,544</u></u>

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

**CITY OF TIOGA, TEXAS
STATEMENT OF ACTIVITIES
Component Units
For the Year Ended September 30, 2018**

Function/Program Activities	Program Revenues			Net (Expenses)/Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Industrial Development	Economic Development	Total
Component Units							
Industrial Development	\$ 5,763	\$ --	\$ --	\$ --	\$ (5,763)	\$ --	\$ (5,763)
Economic Development	19,633	--	--	--	--	(19,633)	(19,633)
Total Component Units	\$ 25,396	\$ --	\$ --	\$ --	\$ (5,763)	\$ (19,633)	\$ (25,396)
			General Revenues				
			Sales Taxes	\$ 39,219	\$ 39,219	\$ 78,438	
			Interest Income	446	22	468	
			Other Income	750	--	750	
			Total General Revenues	40,415	39,241	79,656	
			Change in Net Assets	34,652	19,608	54,260	
			Net Assets - Beginning	193,688	197,936	391,624	
			Net Assets - Ending	\$ 228,340	\$ 217,544	\$ 445,884	

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

City of Tioga, Texas
Notes to the Basic Financial Statements
September 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tioga, Texas, (the “City”) was incorporated in 1906. The City is a municipal corporation governed by an elected mayor and five-member council and provides such services as authorized by its charter to advance the welfare, health, comfort, safety and convenience of the City and its inhabitants.

The accompanying financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has not elected to follow subsequent private-sector guidance. The more significant accounting and reporting policies and practices used by the City are described below.

Financial Statement Presentation

The basic financial statements are prepared in conformity with GASB Statement No. 34 (“GASB 34”) which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City’s governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City’s statement of net assets includes both noncurrent assets and noncurrent liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City’s fixed assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Accordingly, the accounting and financial reporting of the City’s General Fund and Debt Services Fund are similar to that previously presented in the City’s financial statements, although the format of financial statements has been modified by GASB 34.

GASB 34 also requires supplementary information, Management’s Discussion and Analysis, which includes an analytical overview of the City’s financial activities. In addition, a budgetary comparison statement is presented that compares the adopted and modified General Fund budget with actual results.

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City’s operations and so data from these units are combined with data of the primary government. A discretely presented component unit is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the City.

The Tioga Volunteer Fire Department is not included within the reporting entity of the City. The City provides some funding to the organization, maintains title and insurance on equipment, and provides insurance coverage. All of these expenditures are recorded as a separate function in the General Fund of the City. This organization is outside the reporting entity of the City as the City does not appoint management and has no fiscal control over the funds of the Tioga Volunteer Fire Department.

The Tioga Cemetery Association (Cemetery Association) is involved with the Roark Memorial Trust (Trust), which has been created for the perpetual care and maintenance of the Tioga Cemetery. The Co-Trustees of the Trust are the Mayor of the City and the President of Point Bank (or its successors). Since the Mayor has been named as a Co-Trustee, the accounting transactions of the Trust have been included in the City’s financial statements. According to an agreement between the City and the Cemetery Association dated November 18, 1976, the Cemetery Association is responsible for administering the interest proceeds for the care and maintenance of the cemetery. The agreement also requires the Cemetery Association to submit an annual accounting of the transactions to the City.

City of Tioga, Texas
Notes to the Basic Financial Statements
September 30, 2018

The transactions of the Tioga Economic Development Corporation (TEDCO) and the Tioga Industrial Development Corporation (TIDCO) are included in these financial statements as discretely presented component units of the primary government. The City Council is responsible for appointing board members to both of the Corporations and has overall fiscal responsibility for the Corporations. The Corporations were formed after the citizens approved the 4A and 4B sales taxes. The proceeds from the 4A sales tax are to be used for the industrial development of the City and the proceeds from the 4B sales tax are to be used for the community and economic development of the City.

The financial statements are formatted to allow the user to clearly distinguish between primary government and its discretely presented component units.

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the reporting entity. These statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The effect of interfund activity has been removed from these statements. Governmental activities which are partially 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 the legally separate component unit for which the primary government is financially accountable.

The statement of net assets present information on all of the City's 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 is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year. This statement also demonstrates the degree to which the direct expenses of a given activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. 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 activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All non-major funds are aggregated and presented in a single column. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to aid financial management and demonstrate legal compliance.

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 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.

The City maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and the Debt Service fund, both are treated as major funds since these are the only governmental funds the City maintains. A budgetary comparison statement has also been provided for the General fund.

Proprietary funds are maintained for enterprise and internal service operations of the City. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Water and Sewer fund is the only enterprise fund the City maintains.

City of Tioga, Texas
Notes to the Basic Financial Statements
September 30, 2018

Basis of Accounting and Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. With the economic resource measurement focus, all assets and liabilities (whether current or noncurrent) are reported on the statement of net assets.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectively within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the fiscal year-end except investment income which is recorded as earned. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, accrued interest on long-term debt, as well as expenditures related compensated absences, are recorded only when the payment is due.

The revenues susceptible to accrual in governmental funds are ad valorem franchise taxes, sales taxes, interest earned, certain charges for services and intergovernmental revenues, if such revenues are both measurable and available as previously defined. Licenses and permits and municipal court fines are recognized when payment is received. The deferred revenues account is utilized in governmental funds to record earned amounts which are unavailable to liquidate liabilities of the current period (i.e., not collectible within 60 days).

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses that do not meet this definition are reported as nonoperating revenues and expenses.

The City reports the following governmental funds:

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

- The Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt principal and interest.

The City reports the following proprietary fund:

- The Water and Sewer Enterprise Fund is used to account for the rendering of water and sewer services to the residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including administration, operation, maintenance, debt service, and billing and collecting.

Encumbrances

The City does not utilize an encumbrance accounting system; therefore, encumbrances have not been recorded in these financial statements. At year end, a review disclosed no material commitments that required disclosure as encumbrances.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, cash with fiscal agent and short-term investments with original maturities of one year or less from the date of acquisition.

Capital Assets and Depreciation

Capital assets, which include land, buildings, infrastructure, improvements, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at their fair value on the date donated. Repairs and maintenance are recorded as expenses. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

City of Tioga, Texas
Notes to the Basic Financial Statements
September 30, 2018

Interest has not been capitalized for business-type activity assets during construction period as such amounts are not material.

Assets capitalized have an original cost of \$500 or more and a useful life of at least two years. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	25 to 50 years
Infrastructure/Improvements	15 to 50 years
Equipment	5 to 20 years

Bond Issuance Costs

In governmental fund types, bond issuance costs are recognized in the current period. For proprietary fund type, bond issuance costs are amortized over the term of the bonds using the straight-line method.

Accumulated Vacation and Sick Leave

City employees are granted vacation and sick leave in varying amounts. Upon termination, an employee is reimbursed for accumulated vacation. Accumulated vacation is 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 resignations and retirements in accordance with GASB Interpretation No. 6.

Long-Term Debt

General Obligation Bonds issued for general government capital projects that are to be repaid from tax revenues of the City are recorded in the government-wide statement of net assets. Revenue Bonds issued for Proprietary Fund assets that are to be repaid by the Proprietary Fund are recorded in the Proprietary Fund.

Revenue Bonds have been issued to fund capital projects of Proprietary Funds. Such bonds are to be repaid from the net revenues of the Proprietary Fund. To date, Revenue Bonds have been issued for water and sewage purposes.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method in the government-wide financial statements. 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, issuance costs, as well as bond premiums and discounts, are recognized when incurred.

Property Tax Revenues

The City's ad valorem property tax is levied each October 1st on the assessed value listed as of the prior January 1st for all real and business personal property located in the City. Certain properties of religious, educational and charitable organizations, as well as the Federal government and the State of Texas, are exempt from taxation. The assessed value of the certified roll (after exemptions), upon which the levy for the 2017-2018 fiscal year was based, was \$54,114,102.

The tax rate assessed for the year ended September 30, 2018, to finance general fund operations was \$0.5409920 per \$100 valuation.

Taxes are due on October 1st and become delinquent by February 1st following the October 1st levy date. Delinquent real property taxes are expected to be collected as the delinquent amounts form a lien against the related property until paid.

Budget

The budget for 2017-2018 was formally adopted by the City Council at an advertised public meeting on September 11, 2017. If needed, the budget is amended by the City Council.

Interfund Transactions

Numerous interfund transactions occur during the fiscal year because the City primarily utilizes one operating account for its financial transactions (pooled cash system). These transactions are short-term; therefore, no interfund receivables and payables are recorded at September 30, 2018.

City of Tioga, Texas
Notes to the Basic Financial Statements
September 30, 2018

NOTE B – CASH AND INVESTMENTS

Deposits

The City's deposits are primarily covered by Federal Depository Insurance Corporation (FDIC) insurance. The City entered into a depository agreement with Texas Star Bank. This agreement contains provisions to adequately collateralize deposits in compliance with state law.

As of September 30, 2018, the carrying amount of the City's deposits was \$1,553,215 and the combined bank balances were \$1,942,120. Of the combined bank balances, FDIC covered deposits of \$385,496 and deposits of \$1,011,034 were collateralized by pledged securities held by the depository bank (Category 2). \$545,590 of the bank balances were not collateralized or insured. The primary reason for the large amount of uncollateralized funds is a construction account used for paying the construction of a new water well. The funds were deposited and expended within a few days of each other.

The City's cash held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1 – Deposits which are insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 – Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 – Deposits which are not collateralized or insured.

Based on these categories the City's deposits are category 2.

Restricted Cash

The Debt Service Fund and the Enterprise Fund must restrict cash for bond requirements in accordance with their respective bond ordinances. The ordinances require an interest and sinking account for the accumulation of revenues to pay the next maturing interest and principal installments. A reserve account has been established in accordance with the debt ordinances. The specific requirements are as follows:

	Debt Service Fund	Enterprise Fund
Interest and Sinking Requirement	\$ --	\$ 90,688
Reserve Requirement	--	12,912
Total Required	--	103,600
Actual Amounts Reserved	2,399	257,207
Excess/(Under) Reserves	\$ 2,399	\$ 153,608

Investments

Statutes authorize the City to invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by Chapter 2256 Public Funds Investment and Chapter 2257 Collateral for Public Funds of the Government Code.

To comply with the reporting requirements of GASB Statement No. 3, *Investments (including Repurchase Agreements)*, and *Reverse Purchase Agreements*, the City's investments are classified under three categories to indicate the credit risk assumed by the City at September 30, 2018. Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit or securities underlying a repurchase agreement will decline. Market risk is not disclosed in this note.

City of Tioga, Texas
Notes to the Basic Financial Statements
September 30, 2018

Similar to cash deposits, investments can be categorized according to three levels of risk:

- Category 1 - Investments that are insured, registered or held by the City or by its agent in the City's name.
- Category 2 - Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the City's name.
- Category 3 - Uninsured and unregistered investments held by the counterparty, its trust or its agent, but not in the City's name.

As of September 30, 2018, the City did not hold any investments that would need to be categorized in one of the above categories.

NOTE C - BOND ISSUANCE COSTS

The Enterprise Fund incurred bond issuance costs related to several bond issues. The following table summarizes the amortization activity in the Enterprise Fund as of September 30, 2018:

	<u>Series 1993</u>	<u>Series 2000A</u>	<u>Series 2016</u>	<u>Totals</u>
Issuance Costs	\$ 6,093	\$ 30,763	\$ 69,558	\$ 106,414
Accumulated Amortization	3,808	18,458	2,898	25,164
Net Bond Issuance Costs	<u>\$ 2,285</u>	<u>\$ 12,305</u>	<u>\$ 66,660</u>	<u>\$ 81,250</u>
Bond Life (Years)	40	30	24	
Yearly Amortization Expense	<u>\$ 152</u>	<u>\$ 1,025</u>	<u>\$ 2,898</u>	<u>\$ 4,076</u>

NOTE D - PROPERTY AND EQUIPMENT

The following is a summary of the changes in capital assets for the year ended September 30, 2018:

	<u>Balance at 9/30/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 9/30/2018</u>
Governmental Activities				
Capital Assets not Being Depreciated				
Land & Improvements	\$ 213,322	\$ --	\$ --	\$ 213,322
Capital Assets Being Depreciated				
Buildings & Improvements	211,404	--	--	211,404
Vehicles and Equipment	605,387	117,007	--	722,394
Public Safety Equipment	126,687	20,900	--	147,587
Furniture and Office Equipment	31,388	--	--	31,388
Infrastructure	359,772	224,315	--	584,087
Total Capital Assets	<u>1,547,960</u>	<u>362,222</u>	<u>--</u>	<u>1,910,182</u>
Accumulated Depreciation	836,504	109,071	--	945,575
Net Capital Assets	<u>\$ 711,456</u>	<u>\$ 253,151</u>	<u>\$ --</u>	<u>\$ 964,607</u>

City of Tioga, Texas
Notes to the Basic Financial Statements
September 30, 2018

	Balance at 9/30/2017	Additions	Retirements	Balance at 9/30/2018
Business-Type Activities				
Capital Assets not Being Depreciated				
Land	\$ 5,564	\$ --	\$ --	\$ 5,564
Capital Assets Being Depreciated				
Water Distribution System	1,696,937	--	--	1,696,937
Sewer Distribution System	1,862,744	--	--	1,862,744
Vehicles and Equipment	216,181	94,589	52,540	258,230
Construction in Progress	72,276	677,592	--	749,868
Total Capital Assets Being Depreciated	3,848,138	772,181	52,540	4,567,779
Accumulated Depreciation	2,144,665	107,643	52,540	2,199,768
Total Capital Assets Being Depreciated, net	1,703,473	664,538	--	2,368,011
Business-Type Activities Capital Assets, net	\$ 1,709,037	\$ 664,538	\$ --	\$ 2,373,575
Discretely Presented Component Units				
Capital Assets not Being Depreciated				
Land & Improvements	\$ 49,928	\$ --	\$ --	\$ 49,928
Capital Assets Being Depreciated				
Buildings & Improvements	58,045	--	--	58,045
Accumulated Depreciation	(3,419)	(3,777)	--	(7,196)
Discretely Presented Component Units Capital Assets, net	\$ 104,554	\$ (3,777)	\$ --	\$ 100,777

Depreciation expenses were charged to functions/programs of the City as follows:

	Governmental Activities		Business-type Activities
General Government	\$ 31,098		Water & Sewer
Public Works	13,468		\$ 107,643
Public Safety	64,505		Total
Municipal Court	--		\$ 107,643
Total	\$ 109,071		

NOTE E - LONG-TERM LIABILITIES

Various types of long-term debt have been issued by the City for the acquisition and construction of major capital facilities and equipment. A summary of long-term debt transactions, including current portion, for the year ended September 30, 2018, is as follows:

City of Tioga, Texas
Notes to the Basic Financial Statements
September 30, 2018

	<u>Balance at 9/30/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 9/30/2018</u>	<u>Due Within One Year</u>
Governmental Activities					
Loans and Leases	\$ 20,814	\$ 363,932	\$ 21,573	\$ 363,173	\$ 77,319
Certificates of Obligation	25,000	--	25,000	--	--
Totals - Governmental Activities	<u>\$ 45,814</u>	<u>\$ 363,932</u>	<u>\$ 46,573</u>	<u>\$ 363,173</u>	<u>\$ 77,319</u>
Business Type Activities					
Bonds Payable	\$ 146,000	\$ --	\$ 6,000	\$ 140,000	\$ 6,000
Certificates of Obligation	1,665,000	--	20,000	1,645,000	45,000
Totals - Business-Type Activities	<u>\$ 1,811,000</u>	<u>\$ --</u>	<u>\$ 26,000</u>	<u>\$ 1,785,000</u>	<u>\$ 51,000</u>

The City had the following outstanding bonds at September 30, 2018:

Business-Type Activities

On October 1, 1994, the City issued bonds (Series 1993) of \$110,000 for improving the water distribution system. Principal payments from \$1,000 to \$6,000 are payable on October 1st through the year 2033 with semiannual interest payments at 5.125%

\$ 70,000

On October 1, 1994, the City issued bonds (Series 1993A) of \$110,000 for improving the water distribution system. Principal payments from \$1,000 to \$6,000 are payable on October 1st through the year 2033 with semiannual interest payments at 5.125%

70,000

On December 1, 2000, the City authorized certificates of obligation (Series 2000A) in the amount of \$580,000 for construction of a water well, storage facility and related piping. Principal payments from \$5,000 to \$40,000 are payable on October 1st through the year 2031 with semiannual interest payments from 3.2% to 4.4%.

395,000

On June 16, 2016, the City authorized certificates of obligation (Series 2016) in the amount of \$1,250,000 for construction of a water well, storage facility and related piping. Principal payments from \$20,000 to \$85,000 are payable on September 15th through the year 2042 with semiannual interest payments from 0.17% to 2.13%.

1,250,000

Total Business-Type Activities

\$ 1,785,000

City of Tioga, Texas
Notes to the Basic Financial Statements
September 30, 2018

The principal and interest requirements for the long-term debt for the next five fiscal years are as follows:

Fiscal Year Ending September 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Totals	Principal	Interest	Totals
2019	\$ 77,319	\$ 10,385	\$ 87,704	\$ 51,000	\$ 45,423	\$ 43,121
2020	80,560	10,198	90,758	51,000	44,286	44,286
2021	75,176	7,363	82,539	51,000	43,121	43,121
2022	78,118	4,848	82,966	51,000	41,701	41,701
2023	52,000	2,232	54,232	53,000	40,775	40,775
2024 - 2028	--	--	--	362,000	206,224	206,224
2029 - 2033	--	--	--	346,000	112,752	112,752
2034 - 2038	--	--	--	375,000	61,793	61,793
2039 - 2043	--	--	--	445,000	21,552	21,552
2044 - 2048	--	--	--	--	--	--
Totals	<u>\$ 363,173</u>	<u>\$ 35,026</u>	<u>\$ 398,199</u>	<u>\$ 1,785,000</u>	<u>\$ 617,627</u>	<u>\$ 615,325</u>

NOTE F - CONTINGENCIES

Grants

The City participates in various federal and state assisted grants, principally for the construction of water system improvements. Under the terms of these grants, the City is subject to program compliance audits by the grantor or their representatives. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. If future program compliance audits result in any questioned or disallowed costs, reimbursements would be made to the grantor agencies. The amounts of expenditures that might be disallowed by the grantor agencies cannot be determined at this time; however, management believes such amounts, if any, would be immaterial.

NOTE G - RETIREMENT PLAN

Plan Description

The City provides pension benefits for all of its full-time employees who elect to participate through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The annual financial report of TMRS and other required disclosure information are available by writing the Texas Municipal Retirement System, P.O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began or a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the City Council within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. The contribution rate for the employees is 5% and the City matching ratio is currently 1 to 1. Both of these contribution rates were adopted by the City Council. Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years.

City of Tioga, Texas
Notes to the Basic Financial Statements
September 30, 2018

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. The rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City's matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. The projected unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2017, valuation is effective for rates beginning in January 2018).

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2017
Actuarial Accrued Liability	
Contributing Member	\$ 301,499
Noncontributing Members	37,850
Annuitants	--
	\$ 339,349
Actuarial Value of Assets	367,045
	\$ (27,696)
Funded Ratio	108%
Annual Covered Payroll	\$ 360,780
Net Pension Obligation (NPO) at the Beginning of Period	--
Annual Pension Cost:	
Annual Required Contribution (ARC)	\$ 30,107
Contributions Made	(30,107)
	\$ --

NOTE H - 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 purchases commercial insurance through the Texas Municipal League. The City retains no risk of loss for these coverages. The City accounts for risk management issues in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.

NOTE I - SUBSEQUENT EVENTS

There have been no events after September 30, 2018, that would require adjustments to, or disclosure in, these financial statements.

SUPPLEMENTARY INFORMATION

City of Tioga, Texas
Supplemental Information
September 30, 2018

Bond Covenants and Requirements

The City's Waterworks System Revenue Bonds, Series 1993, establishes two funds: an interest and sinking fund and a reserve fund. The interest and sinking fund is for the accumulation of resources for the payment of principal and interest in the next fiscal year. The interest and sinking fund has a required balance of \$9,588 at September 30, 2018. The reserve fund is for the accumulation of resources for payment of principal and interest if sufficient amounts are not available in the interest and sinking fund. A minimum of \$12,912 is to be maintained in the reserve fund. Moneys required for the interest and sinking fund and the reserve fund are in the following accounts:

Account	Balance 9/30/2018
Interest and Sinking Checking	\$ 10,173
Reserve Account	19,405
Cash with Fiscal Agent	9,588
Total	39,166
Actual Requirements	22,500
Over/(Under) Reserved	\$ 16,666

The City's Combination Tax and Revenue Certificates of Obligation, Series 2016, establishes one fund: an interest and sinking fund. The interest and sinking fund is used to accumulate any ad valorem taxes and any surplus revenues of the waterworks and sewer system, which will be used to pay the principal and interest of these obligations. At September 30, 2018, the amount required in the interest and sinking fund is \$38,848. The City is required to levy ad valorem taxes in an amount sufficient to pay the principal and interest as it comes due. The amount of ad valorem taxes to be levied can be reduced by the amount of surplus revenues actually on deposit in the interest and sinking fund at the time the taxes are to be levied. At September 30, 2018, the City has not levied any taxes as enough amounts are on deposit in the interest and sinking fund. Moneys required for the interest and sinking fund are in the following accounts:

Account	Balance 9/30/2018
Interest and Sinking Checking	\$ 102,744
Cash with Fiscal Agent	--
Total	102,744
Actual Requirements	38,848
Over/(Under) Reserved	\$ 63,896

Deposit Insurance and Collateral

The funds required by the bond covenants, as well as other City funds, are insured by \$385,496 of federal depository insurance and collateralized by the following investments pledged by The Independent Bank.:

FHLMC – Bonds
Par Value Pledged \$1,000,000 Market Value -- \$1,011,034

The City had \$545,590 of uncollateralized and uninsured funds on deposit at September 30, 2018. All other City deposits were insured or collateralized at September 30, 2018.

City of Tioga, Texas
Supplemental Information
September 30, 2018

Property Tax Information

Assessed Valuation – 2017 Tax Roll	\$54,114,102
2017 Tax Rate	\$0.5409920 per \$100 Valuation

Collections:

2017 Taxes	\$ 325,165
2016 and Prior Years Taxes	\$ 3,591

Insurance Policies in Force

The City has the following insurance coverages in effect at September 30, 2018

<u>Type of Coverage</u>	<u>Coverage Limits</u>	<u>Expiration Date</u>
General Liability	\$1,000,000 per occurrence \$2,000,000 aggregate \$0 deductible	October 1, 2018
Law Enforcement Liability	\$1,000,000 per occurrence \$2,000,000 aggregate \$1,000 deductible	October 1, 2018
Errors and Omissions Liability	\$1,000,000 per occurrence \$2,000,000 aggregate \$1,000 deductible	October 1, 2018
Automobile Liability	\$500,000 per occurrence \$25,000 medical \$0 deductible	October 1, 2018
Real and Personal Property	\$4,453,305 \$500 deductible	October 1, 2018
Mobile Equipment	\$130,176 \$500 deductible	October 1, 2018
Worker's Compensation		October 1, 2018

Number of Customers

Waterworks System	531
Sewer System	465

Water Accountability

Gallons Pumped	44,413,300
Gallons Sold	(40,777,902)
Estimate City Usage (City buildings, Sewer plant, fire department, etc.)	<u>(750,000)</u>
Water Loss (gallons)	<u><u>2,885,398</u></u>

**City of Tioga, Texas
Supplemental Information
September 30, 2018**

Elected Officials and Key Employees

Craig Jezek Mayor	PO Box 206 Tioga, Texas 76271	(940) 367-2993
Kurt Hall Mayor Pro Tem	PO Box 206 Tioga, Texas 76271	(214) 876-3221
Jeff Moncrief Council Member	PO Box 206 Tioga, Texas 76271	(940) 367-8133
Tommy Hunter Council Member	PO Box 206 Tioga, Texas 76271	(940) 999-3116
Mead McGee Council Member	PO Box 206 Tioga, Texas 76271	(940) 230-6628
Heather Nesmith Council Member	PO Box 206 Tioga, Texas 76271	(972) 746-5324
Donna Carney City Secretary	PO Box 206 Tioga, Texas 76271	(903) 267-0659

OVERALL INTERNAL CONTROL AND COMPLIANCE SECTION



Joseph E. Madden

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

December 10, 2018

The Honorable Mayor and
Members of the City Council
City of Tioga, Texas

I have audited the financial statements of the City of Tioga, Texas, (City) as of and for the year ended September 30, 2018, and have issued my report thereon dated December 10, 2018. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Joseph E. Madden
Certified Public Accountant

