

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

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FINANCIAL SECTION

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SWAIM, BRENTS & ASSOCIATES, P.C.
2804 Jefferson Drive
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Liberty, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison and pension plan information on pages 3 through 11 and 47 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

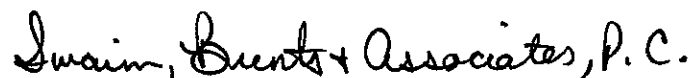
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and the supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 26, 2018, on our consideration of the City of Liberty, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Swaim, Brents & Associates, P.C.
Liberty, Texas
February 26, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of the City of Liberty, Texas (the City) presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2017. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

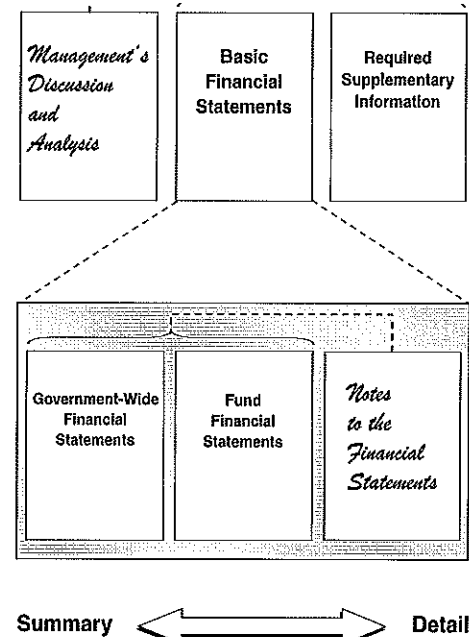
- The City's total combined net position was \$57.4 million at September 30, 2017, compared to \$52.9 million at September 30, 2016.
- Revenues for 2017 were \$29.3 million compared to \$27.7 million in 2016. Charges for electrical services increased \$0.4 million, while water and wastewater revenues increased \$0.2 million. Additionally, property tax revenues increased \$0.1 million (3.4%). Revenues include \$0.7 million in capital grants in 2017 for airport drainage projects.
- During the year ended September 30, 2017, the City's total expenses were \$29.5 million compared to \$26.9 million in 2016. Governmental expenses included \$0.7 million for disaster recovery expenses associated with Hurricane Harvey. Additionally, police and court expenses increased \$0.2 million. The electrical fund expenses increase \$0.8 million for power purchases due to a reduction in the power rebate from 2016.
- The general fund reported a fund balance of \$2.5 million at September 30, 2017, compared to 3.7 million in prior year.
- During 2017, the City continued with various construction projects from the prior year and began new construction projects. Those projects included sewer system and wastewater treatment plant rehabilitation, electrical improvements, and street improvements.
- As of September 30, 2017, the City has \$3.2 million in restricted cash for debt service and \$8.7 million in restricted cash remaining from the debt issuances to fund capital projects.
- During 2017, the City received \$4.6 million from SRMPA for Cambridge Project net profits, compared to \$6.5 million in 2016. This is presented as a special item in the electric fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements. Additionally, the City implemented GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The statement amends the net asset reporting requirements of GASB Statement No. 34 by incorporating deferred inflows and outflows of resources into the required components of the residual measure and renaming that measure as net position. The basic financial statements of the City include (a) Management's Discussion and Analysis, (b) Government-wide Financial Statements, (c) Fund Financial Statements, (d) Notes to Financial Statements; and (e) Required Supplementary Information. The basis of presentation and the basis of accounting for the government-wide and fund financial statements is discussed below:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities in the government that operates *like businesses*.

Figure A-1, Required Components of the City's Annual Financial Report



- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and are related to one another.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements

Type of Statements	Government-wide Entire City's government (except fiduciary funds) and the City's component units	Governmental Funds The activities of the City that are not proprietary or fiduciary	Fund Statements Proprietary Funds Activities the City operates similar to private businesses & self insurance	Fiduciary Funds Instances in which the City is the trustee or agent for someone else's resources
Scope				
Required financial statements	<ul style="list-style-type: none"> ♦ Statement of net position ♦ Statement of activities 	<ul style="list-style-type: none"> ♦ Balance sheet ♦ Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> ♦ Statement of net position ♦ Statement of revenues, expenses and changes in fund net position ♦ Statement of cash flows 	<ul style="list-style-type: none"> ♦ Statement of fiduciary net position ♦ Statement of changes in fiduciary net position
Accounting basis and measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets, liabilities and deferred inflows and outflows of resources—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, streets, sanitation, economic development, culture and recreation, and interest on long-term debt. Property taxes and other taxes finance most of these activities.

The government-wide financial statements of the City also include the *Business-type activities* such as electric services, water and wastewater services and solid waste services. These services are financed through user charges.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental Funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that 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. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information to the right of the governmental funds statement, that explain the relationship (or differences) between them.
- *Proprietary Funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$57.4 million at September 30, 2017, compared to \$52.9 million at September 30, 2016. (See Table A-1).

Table A-1
City's Net Position
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2017	2016	2017	2016	2017	2016	2017-2016
Assets:							
Cash	\$5,419.4	\$5,725.5	\$9,158.2	\$13,293.5	\$14,577.6	\$19,019.0	-23.3%
Cash – Restricted	10,275.4	2,331.9	1,669.3	2,436.3	11,944.7	4,768.2	250.5%
Investments	112.6	227.3	5,749.5	-	5,862.1	227.3	2,579.0%
Accounts Receivable	3.1	2.6	1,979.7	2,021.0	1,982.8	2,023.6	-2.0%
Taxes Receivable, Net	479.3	448.9	-	-	479.3	448.9	6.8%
Due from State/Federal							
Agencies	494.0	461.6	-	-	494.0	461.6	7.0%
Due from Other							
Governments	6.5	7.1	329.9	-	336.4	7.1	4,638.0%
Prepaid Assets	96.0	-	11.0	-	107.0	-	100.0%
Inventory	71.4	90.2	326.2	322.4	397.6	412.6	-3.6%
Internal Balances	834.2	570.8	(834.2)	(570.8)	-	-	-
Capital Assets, Net	28,315.1	27,836.4	26,453.6	24,908.6	54,768.7	52,745.0	3.8%
Total Assets	46,107.0	37,702.3	44,843.2	42,411.0	90,950.2	80,113.3	13.5%
Deferred Outflows of Resources	1,175.5	1,409.7	218.3	267.4	1,393.8	1,677.1	-16.9%
Liabilities:							
Accounts Payable	848.3	364.0	1,904.7	2,107.7	2,753.0	2,471.7	11.4%
Customer Overpayments	-	-	44.4	47.0	44.4	47.0	-5.5%
Payable from Restricted Assets	-	-	31.3	3.1	31.3	3.1	909.7%
Due to State/Federal							
Agencies	158.4	15.8	37.7	36.4	196.1	52.2	275.7%
Accrued Interest Payable	36.5	31.1	9.7	12.2	46.2	43.3	6.7%
Service Deposits	-	-	286.0	331.5	286.0	331.5	-13.7%
Long-Term Liabilities:							
Due Within One Year	1,429.4	1,100.9	620.3	818.6	2,049.7	1,919.5	6.8%
Due in More Than One Year	22,517.1	16,157.5	6,950.5	7,781.6	29,467.6	23,939.1	23.1%
Total Liabilities	24,989.7	17,669.3	9,884.6	11,138.1	34,874.3	28,807.4	21.1%
Deferred Inflows of Resources	45.5	-	8.6	-	54.1	-	100.0%
Net Position:							
Net Investment in Capital Assets	17,664.2	16,414.5	20,755.6	18,917.5	38,419.8	35,332.0	8.7%
Restricted for Debt Service	2,614.1	2,445.8	789.8	869.1	3,403.9	3,314.9	2.7%
Restricted for Building Security and Technology	63.5	60.5	-	-	63.5	60.5	5.0%
Unrestricted	1,905.4	2,521.9	13,623.0	11,753.7	15,528.4	14,275.6	8.7%
Total Net Position	\$22,247.2	\$21,442.7	\$35,168.4	\$31,540.3	\$57,415.6	\$52,983.0	8.4%

As of September 30, 2017, the City had invested \$38.4 million in capital assets, net of related debt. Approximately \$3.4 million of the City's net position are restricted for debt service. Additionally, approximately \$8.7 million remains restricted for construction projects, but as the related debt is outstanding, there is no effect on net position. The remaining unrestricted net position of \$15.5 million represents resources available to fund the programs of the City next year.

As of September 30, 2016, the City had invested \$35.3 million in capital assets, net of related debt. Approximately \$3.3 million of the City's net position are restricted for debt service. Additionally, approximately \$1.7 million remains restricted for construction projects, but as the related debt is outstanding, there is no effect on net position. The remaining unrestricted net position was \$14.3 million.

Changes in Net Position

The City's total revenues for 2017 were \$29.3 million compared to \$27.7 million in 2016. A significant portion, 73 percent, of the City's revenue comes from charges for services. (See Figure A-3.) Other revenue sources include property taxes (13 percent), sales tax (13 percent), and grants and contributions (1 percent). The total cost of all programs and services was \$29.5 million; 52 percent of these costs are electric services, 3 percent are for streets and general maintenance and 8 percent are for water and wastewater services. Police department expenses and fire department expenses accounted for 8 percent and 9 percent, respectively, of total expenses.

The City's total revenues for 2016 were \$27.7 million compared to \$29.7 million in 2015. A significant portion, 73 percent, of the City's revenue comes from charges for services. (See Figure A-3.) Other revenue sources include property taxes (13 percent), sales tax (13 percent), and grants and contributions (1 percent). The total cost of all programs and services was \$26.7 million; 52 percent of these costs are electric services, 3 percent are for streets and general maintenance and 8 percent are for water and wastewater services. Police department expenses and fire department expenses accounted for 8 percent and 9 percent, respectively, of total expenses.

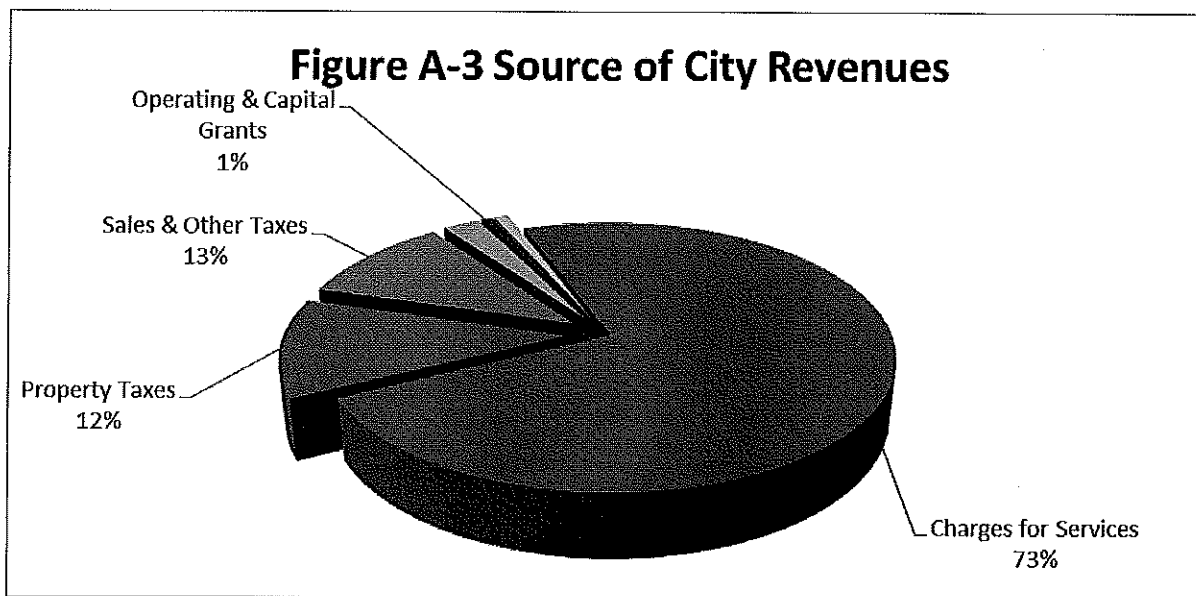


Table A-2
Changes in the City's Net Position
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2017-2016
	2017	2016	2017	2016	2017	2016	
Program Revenues:							
Charges for Services -							
Governmental Activities	\$1,535.1	\$1,524.4	-	-	\$1,535.1	\$1,524.4	0.7%
Electric	-	-	\$15,903.6	\$15,472.2	15,903.6	15,472.2	2.8%
Water and Wastewater	-	-	3,372.1	3,210.3	3,372.1	3,210.3	5.0%
Garbage	-	-	734.1	736.8	734.1	736.8	-0.4%
Operating Grants and Contributions	118.0	141.4	88.4	9.2	206.4	150.6	37.1%
Capital Grants and Contributions	720.6	-	-	-	720.6	-	100.0%
General Revenues:							
Property Taxes	3,476.7	3,362.3	-	-	3,476.7	3,362.3	3.4%
Sales and Other Taxes	3,109.7	3,116.9	-	-	3,109.7	3,116.9	-0.2%
Gain/(Loss) on Sale of Assets	(24.4)	2.9	-	-	(24.4)	2.9	-941.4%
Investment Earnings	92.3	38.2	57.9	50.5	150.2	88.7	44.6%
Other	145.0	35.8	-	-	145.0	35.8	305.0%
Total Revenues	\$9,173.0	\$8,221.9	\$20,156.1	\$19,479.0	\$29,329.1	\$27,700.9	5.8%

Table A-2 (Continued)
Changes in the City's Net Position
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017-2016</u>
Expenses by Functions/ Programs							
Administration and City Business and Support Services	\$1,187.2	\$1,093.3	-	-	\$1,187.2	\$1,093.3	8.6%
Economic Development	781.8	766.8	-	-	781.8	766.8	2.0%
Public Health and Safety:	168.9	130.0	-	-	168.9	130.0	29.9%
Fire/ Emergency Medical	2,368.8	2,325.9	-	-	2,368.8	2,325.9	1.8%
Police and Court	2,780.3	2,495.0	-	-	2,780.3	2,495.0	11.4%
Animal Control	136.0	146.4	-	-	136.0	146.4	-7.1%
Library	925.9	855.7	-	-	925.9	855.7	8.2%
Streets and General	979.7	846.7	-	-	979.7	846.7	15.7%
Parks and Recreation	330.3	343.7	-	-	330.3	343.7	-3.9%
Inspection Services	184.8	189.4	-	-	184.8	189.4	-2.4%
Airport Operations	345.6	326.7	-	-	345.6	326.7	5.8%
Disaster Recovery	648.5	-	-	-	648.5	-	100.0%
Interest on Long-Term	534.6	402.8	-	-	534.6	402.8	32.7%
Bond Issuance Cost	136.7	-	-	-	136.7	-	100.0%
Electric	-	-	\$14,959.4	\$14,102.2	14,959.4	14,102.2	6.1%
Water and Wastewater	-	-	2,434.5	2,267.5	2,434.5	2,267.6	15.9%
Garbage	-	-	560.2	566.5	560.2	566.5	-1.1%
Total Expenses	<u>11,509.1</u>	<u>9,922.4</u>	<u>17,954.1</u>	<u>16,936.2</u>	<u>29,463.2</u>	<u>26,858.6</u>	10.4%
Change in Net Position Before Items & Transfers	(2,336.1)	(1,700.5)	2,202.0	2,542.8	(134.1)	842.3	-118.5%
Special Items	-	-	4,566.7	6,500.0	4,566.7	6,500.0	-29.7%
Transfers	<u>3,140.6</u>	<u>1,975.5</u>	<u>(3,140.6)</u>	<u>(1,975.5)</u>	<u>-</u>	<u>-</u>	-
Change in Net Position	<u>804.5</u>	<u>275.0</u>	<u>3,628.1</u>	<u>7,067.3</u>	<u>4,432.6</u>	<u>7,342.3</u>	-39.9%
Net Position – Beginning	21,442.7	20,367.1	31,540.3	25,273.6	52,983.0	45,640.7	16.1%
Prior Period Adjustment (1)	-	800.6	-	(800.6)	-	-	-
Net Position – Ending	<u>\$22,247.2</u>	<u>\$21,442.7</u>	<u>\$35,168.4</u>	<u>\$31,540.3</u>	<u>\$57,415.6</u>	<u>\$52,983.0</u>	8.3%

(1) Prior period adjustment related to allocation of net pension liability and related deferred items between governmental activities and business-type activities.

Table A-3 presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$11.5 million.
- The amount that our taxpayers paid for these activities was \$3.5 million in property taxes and \$3.1 million in sales and other taxes.
- The remaining funding came primarily from charges for services (\$1.5 million) and transfers from business-type activities (\$3.1 million).

Table A-3
Net Cost of Selected Governmental-Type City Functions
(in thousands of dollars)

	Total Cost of Services			Net Cost of Services		
	<u>2017</u>	<u>2016</u>	<u>% Change 2017-2016</u>	<u>2017</u>	<u>2016</u>	<u>% Change 2017-2016</u>
Administration and City Council	\$1,187.2	\$1,093.3	8.6%	\$1,144.4	\$1,030.7	11.0%
Business and Support Services	781.8	766.8	2.0%	781.8	766.8	2.0%
Economic Development/Tourism	168.9	130.0	29.9%	130.4	88.7	47.0%
Public Health and Safety:						
Fire/ Emergency Medical Services	2,368.8	2,325.9	1.8%	1,493.8	1,376.0	8.6%
Police and Municipal Court	2,780.3	2,495.0	11.4%	2,427.1	2,195.9	10.5%
Animal Control	136.0	146.4	-7.1%	130.9	136.1	-3.8%
Library	925.9	855.7	8.2%	897.5	824.3	8.9%
Streets and General Maintenance	979.7	846.7	15.7%	948.8	846.6	12.1%
Parks and Recreation	330.3	343.7	-3.9%	316.9	330.6	-4.1%
Inspection Services	184.8	189.4	-2.4%	148.2	148.1	0.1%
Airport Operations	345.6	326.7	5.8%	(604.2)	110.0	-649.3%
Disaster Recovery	648.5	-	100.0%	648.5	-	100.0%
Interest on Long-Term Debt	534.6	402.8	32.7%	534.6	402.8	32.7%
Bond Issuance Cost	136.7	-	100.0%	136.7	-	100.0%
Total	<u>\$11,509.1</u>	<u>\$9,922.4</u>	<u>16.0%</u>	<u>\$9,135.4</u>	<u>\$8,256.6</u>	<u>10.6%</u>

Business-type Activities

Revenues of the City's business-type activities increased \$0.6 million from 2016 to \$20.2 million, and expenses increased \$1.2 million to \$18.0 million compared to 2016. The electric fund had higher revenues and expenses due to higher power demand primarily from an industrial customer. The electric fund received \$4.6 million in nonoperating revenue from the Cambridge Project. Additionally, business-type activities transferred out \$3.1 million to governmental activities. Overall, net position increased \$3.6 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$9.1 million, an increase of \$0.9 million from 2016. Expenditures for the governmental funds were higher than prior year amounts by \$1.6 million. The increase in expenditures was primarily due to disaster recovery expenditures of \$0.7 million.

General Fund Budgetary Highlights

The City revises its budget as needed to meet the needs of the City. General fund revenues were \$0.1 million (5%) lower than budgeted primarily due to lower tax revenues and fees than expected. Expenditures exceeded appropriation by \$1.5 million primarily due to higher library building professional services than expected, and disaster recovery expenditures not budgeted. Other financing sources from transfers from other funds were \$0.6 million higher than expected. Overall, the general fund ended the year with expenditures exceeding revenues by \$1.1 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had invested \$118.8 million in a broad range of capital assets, including land, equipment, buildings, vehicles, utility systems and infrastructure. (See Table A-4.) This amount represents a net increase (including additions and deductions) of \$2.5 million over the prior year.

Table A-4
City's Capital Assets
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2017-2016
	2017	2016	2017	2016	2017	2016	
Land	\$1,345.2	\$1,317.7	\$2.6	\$2.6	\$1,347.8	\$1,320.3	2.1%
Buildings and Improvements	14,117.4	14,058.4	849.5	1,049.5	14,966.9	15,107.9	-0.9%
Construction in Progress	3,310.6	3,743.9	3,679.1	13,048.4	6,989.7	16,792.3	-58.4%
Infrastructure	53,826.4	52,638.2	3,580.5	-	57,406.9	52,638.2	9.1%
Utility Systems	-	-	30,197.3	22,472.1	30,197.3	22,472.1	34.4%
Vehicles	2,121.0	2,046.0	388.8	383.1	2,509.8	2,429.1	3.3%
Furniture and Equipment	3,901.9	4,169.0	1,116.3	1,014.1	5,018.2	5,183.1	-3.2%
Assets Held Under Capital Lease	365.0	365.0	-	-	365.0	365.0	0.0%
Totals at Historical Cost	78,987.5	78,338.2	39,814.1	37,969.8	118,801.6	116,308.0	2.1%
Total Accumulated Depreciation	(50,672.3)	(50,501.8)	(13,360.5)	(13,061.2)	(64,032.8)	(63,563.0)	0.8%
Net Capital Assets	<u>\$28,315.2</u>	<u>\$27,836.4</u>	<u>\$26,453.6</u>	<u>\$24,908.6</u>	<u>\$54,768.8</u>	<u>\$52,745.0</u>	3.8%

Long Term Debt

At yearend, the City had \$25.0 million in debt outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

Bond Ratings

The City's bonds are presently rated "AA-" by Standard & Poor's Rating Services. LCDC's bonds are presently rated at "A-" by Standard & Poor's Rating Services.

Table A-5
City's Long Term Debt
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2017-2016
	2017	2016	2017	2016	2017	2016	
Capital Lease Obligations	\$98.2	\$140.3	-	-	\$98.2	\$140.3	-30.0%
Bonds Payable, 2007 Series	-	-	\$4,890.0	\$5,275.0	4,890.0	5,275.0	-7.3%
Certificates of Obligation, 2016	7,340.0	-	-	-	7,340.0	-	100.0%
Certificates of Obligation, 2010A	3,930.0	4,160.0	-	-	3,930.0	4,160.0	-5.5%
Certificates of Obligation, 2010	-	-	-	455.0	-	455.0	-100.0%
Certificates of Obligation, 2012	1,455.0	1,530.0	-	-	1,455.0	1,530.0	-4.9%
Refunding Bonds, 2012	1,895.0	2,145.0	-	-	1,895.0	2,145.0	-11.7%
Utility System Bonds 2016A	-	-	810.0	900.0	810.0	900.0	-10.0%
Utility System Bonds 2016B	-	-	825.0	915.0	825.0	915.0	-9.8%
LCDC Sales Tax Bonds	2,865.0	2,985.0	-	-	2,865.0	2,985.0	-4.0%
Bond Premium	506.5	309.4	-	-	506.5	309.4	63.7%
Bond Discount	-	-	(32.8)	(36.5)	(32.8)	(36.5)	-10.1%
LCDC Note Payable	438.6	456.5	-	-	438.6	456.5	-3.9%
Total Long Term Debt	<u>\$18,528.3</u>	<u>\$11,726.2</u>	<u>\$6,492.2</u>	<u>\$7,508.5</u>	<u>\$25,020.5</u>	<u>\$19,234.7</u>	30.1%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2018 budget preparation increased 6% over the amounts used in 2017. The combined tax rate for Maintenance and Operations and Interest and Sinking is budgeted to stay consistent with 2017. As a result, property taxes are expected to decrease approximately 3.2% from prior year. Overall general fund revenues are expected to increase 2.1% over 2017 levels.
- General operating fund spending in the 2018 budget is expected to be \$8.7 million, a 2.1% increase over budgeted amounts for 2017.

These indicators were taken into account when adopting the general fund budget for 2018. The 2018 budget is essentially a balanced budget. As a result fund balance in the general fund is expected to remain constant.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Financial Department.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash	\$5,419,446	\$9,158,202	\$14,577,648
Cash – Restricted	10,275,404	1,669,286	11,944,690
Investments	112,606	5,749,487	5,862,093
Accounts Receivable, Net	3,036	1,979,739	1,982,775
Taxes Receivable, Net	479,256	-	479,256
Due From State	493,986	-	493,986
Due from Other Governments	6,432	329,877	336,309
Prepays	96,032	10,978	107,010
Inventory	71,400	326,249	397,649
Internal Balances	834,233	(834,233)	-
Capital Assets, Net	28,315,185	26,453,618	54,768,803
TOTAL ASSETS	46,107,016	44,843,203	90,950,219
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Interest on Refunded Debt	91,205	-	91,205
Deferred Outflows Related to Pensions	1,084,273	218,356	1,302,629
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,175,478	218,356	1,393,834
<u>LIABILITIES</u>			
Accounts Payable	848,307	1,904,725	2,753,032
Customer Overpayments Payable	-	44,365	44,365
Payable from Restricted Assets	-	31,235	31,235
Due to State/Federal Agencies	158,427	37,722	196,149
Accrued Interest Payable	36,459	9,661	46,120
Service Deposits	-	286,040	286,040
Long-term Liabilities:			
Due Within One Year	1,429,394	620,288	2,049,682
Due In More Than One Year	22,517,138	6,950,536	29,467,674
TOTAL LIABILITIES	24,989,725	9,884,572	34,874,297
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows Related to Pension	45,462	8,614	54,076
TOTAL DEFERRED INFLOWS OF RESOURCES	45,462	8,614	54,076
<u>NET POSITION</u>			
Net Investment in Capital Assets	17,664,253	20,755,592	38,419,845
Restricted for Debt Service	2,614,118	789,785	3,403,903
Restricted for Building Security and Technology	63,472	-	63,472
Unrestricted	1,883,519	13,622,996	15,506,515
TOTAL NET POSITION	\$22,247,307	\$35,168,373	\$57,415,680

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2017

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Government Activities:				
Administration	\$1,187,339	\$42,955	-	-
Business and Support Services	781,785	-	-	-
Economic Development/Tourism	168,895	31,181	\$7,300	-
Public Health and Safety:				
Fire/EMS	2,368,793	825,666	49,349	-
Police	2,582,895	61,260	1,799	-
Municipal Court	197,434	287,671	2,460	-
Animal Control	136,046	4,215	928	-
Library	925,880	13,150	15,248	-
Streets	877,479	-	30,801	-
Maintenance	102,157	-	-	-
Parks and Recreation	330,341	13,440	-	-
Inspection Services	184,763	36,540	-	-
Airport Operations	345,570	219,024	10,163	\$720,612
Disaster Recovery	648,451	-	-	-
Bond Issue Costs	136,727	-	-	-
Interest on Long-term Debt	534,571	-	-	-
Total Governmental Activities	11,509,126	1,535,102	118,048	720,612
Business-Type Activities:				
Electric	14,959,386	15,903,554	-	-
Water and Wastewater	2,434,522	3,372,107	88,391	-
Solid Waste	560,215	734,145	-	-
Total Business-Type Activities	17,954,123	20,009,806	88,391	-
Totals	\$29,463,249	\$21,544,908	\$206,439	\$720,612

General Revenues
Property Taxes Levied For:
General Purposes
Debt Service
Sales Tax
Other Taxes
Gain/loss on Sale of Assets
Miscellaneous Income
Investment Income
Total General Revenues

Special Items
Transfers

Change in Net Position

Net Position, Beginning of Year

Net Position, End of Year

The accompanying notes are an integral part of this statement.

<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$(1,144,384)	-	\$(1,144,384)
(781,785)	-	(781,785)
(130,414)	-	(130,414)
(1,493,778)	-	(1,493,778)
(2,519,836)	-	(2,519,836)
92,697	-	92,697
(130,903)	-	(130,903)
(897,482)	-	(897,482)
(846,678)	-	(846,678)
(102,157)	-	(102,157)
(316,901)	-	(316,901)
(148,223)	-	(148,223)
604,229	-	604,229
(648,451)	-	(648,451)
(136,727)	-	(136,727)
(534,571)	-	(534,571)
(9,135,364)	-	(9,135,364)
-	\$944,168	944,168
-	1,025,976	1,025,976
-	173,930	173,930
-	2,144,074	2,144,074
(9,135,364)	2,144,074	(6,991,290)
2,023,114	-	2,023,114
1,453,581	-	1,453,581
2,866,815	-	2,866,815
242,884	-	242,884
(24,369)	-	(24,369)
144,972	-	144,972
92,328	57,914	150,242
6,799,325	57,914	6,857,239
-	4,566,667	4,566,667
3,140,598	(3,140,598)	-
804,559	3,628,057	4,432,616
21,442,748	31,540,316	52,983,064
\$22,247,307	\$35,168,373	\$57,415,680

CITY OF LIBERTY, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	Liberty Community Development Corporation	Debt Service Funds	
			City of Liberty	LCDC
<u>ASSETS</u>				
Cash	\$1,971,789	\$3,093,437	-	-
Cash – Restricted	63,472	-	\$2,124,902	\$300,828
Investments	-	-	-	-
Accounts Receivable, Net	3,036	-	-	-
Taxes Receivable – Delinquent	513,682	-	395,536	-
Less: Allowance for Uncollectible Taxes	(242,916)	-	(187,046)	-
Due from State/Federal Agencies	335,443	148,380	-	-
Due from Other Governments	6,432	-	-	-
Prepaid Assets	96,032	-	-	-
Inventory	71,400	-	-	-
Interfund Receivable	832,599	1,674	13,797	2,560
TOTAL ASSETS	3,650,969	3,243,491	2,347,189	303,388
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$3,650,969	\$3,243,491	\$2,347,189	\$303,388
<u>LIABILITIES</u>				
Accounts Payable	\$818,047	\$21,184	-	-
Due to State/Federal Agencies	25,071	-	-	-
Interfund Payable	13,797	2,600	-	-
TOTAL LIABILITIES	856,915	23,784	-	-
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred Taxes Revenue	257,208	-	\$203,904	-
TOTAL DEFERRED INFLOWS OF RESOURCES	257,208	-	203,904	-
<u>FUND BALANCES</u>				
Restricted Fund Balances:				
Debt Service	-	-	2,143,285	\$303,388
Capital Projects	-	-	-	-
Building Security and Technology	63,472	-	-	-
Committed Fund Balance	85,295	3,219,707	-	-
Assigned	649,416	-	-	-
Unassigned	1,738,663	-	-	-
TOTAL FUND BALANCES	2,536,846	3,219,707	2,143,285	303,388
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$3,650,969	\$3,243,491	\$2,347,189	\$303,388

The accompanying notes are an integral part of this statement.

Capital Projects Fund (CO 2016)	Other Governmental Funds	Total Governmental Funds
-	\$354,220	\$5,419,446
\$7,781,134	5,068	10,275,404
-	112,606	112,606
-	-	3,036
-	-	909,218
-	-	(429,962)
-	10,163	493,986
-	-	6,432
-	-	96,032
-	-	71,400
-	-	850,630
7,781,134	482,057	17,808,228

-	-	-
\$7,781,134	\$482,057	\$17,808,228

-	\$9,076	\$848,307
-	133,356	158,427
-	-	16,397
-	142,432	1,023,131

-	-	461,112
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-	-	461,112
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-	-	2,446,673
\$7,781,134	5,068	7,786,202
-	-	63,472
-	334,557	3,639,559
-	-	649,416
-	-	1,738,663
7,781,134	339,625	16,323,985

\$7,781,134	\$482,057	\$17,808,228
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CITY OF LIBERTY, TEXAS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2017

TOTAL GOVERNMENTAL FUND BALANCES	\$16,323,985
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	28,315,185
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	461,112
Payables for debt principal which was not due in the current period are not reported in the funds.	(18,404,560)
Payables for debt interest which are not due in the current period are not reported in the funds.	(36,459)
The premium paid for bond issuance is income in the funds when incurred but are deferred and amortized in the SNP.	(506,486)
Liability for pension obligation is not reported in the funds.	(5,035,486)
Deferred outflows and inflows of resources related to pensions are not reported in the funds.	1,038,811
Interest on advance refunding of debt is expensed in the funds but deferred and amortized in the SNP.	<u>91,205</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$22,247,307</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2017

	General	Liberty Community Development Corporation	Debt Service Funds	
			City of Liberty	LCDC
<u>REVENUES:</u>				
Ad Valorem Taxes	\$2,005,163	-	\$1,441,170	-
Sales Tax	1,993,516	\$873,299	-	-
Other Taxes	204,963	-	-	-
Fines & Forfeitures	287,671	-	-	-
Investment Income	13,193	10,216	7,510	\$1,054
Licenses, Fees & Rents	917,864	-	-	-
Intergovernmental Transfers & Grants	84,409	-	-	-
Donations	13,248	-	-	-
Sale of Assets	14,773	-	-	-
Other Revenues & Receipts	224,334	-	-	-
TOTAL REVENUES	5,759,134	883,515	1,448,680	1,054
<u>EXPENDITURES:</u>				
Administration	1,114,905	-	-	-
Business & Support Services	725,653	-	-	-
Economic Development / Tourism	-	43,466	-	-
Public Health & Safety:				
Fire/EMS	1,984,960	-	-	-
Police	2,270,494	-	-	-
Municipal Court	188,320	-	-	-
Animal Control	126,736	-	-	-
Library	769,117	-	-	-
Streets	757,464	-	-	-
Maintenance	88,709	-	-	-
Parks & Recreation	269,292	-	-	-
Inspection Services	175,062	-	-	-
Airport Operations	-	-	-	-
Capital Expenditures	964,013	-	-	-
Disaster Recovery	648,451	-	-	-
Debt Service: Principal	42,089	17,913	870,000	120,000
Interest & Fees	2,844	17,935	421,040	111,563
TOTAL EXPENDITURES	10,128,109	79,314	1,291,040	231,563
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(4,368,975)	804,201	157,640	(230,509)
<u>OTHER FINANCING SOURCES (USES):</u>				
Proceeds from Issuance of Debt	-	-	-	-
Premium on Debt Issuance	-	-	-	-
Bond Issuance Costs	-	-	-	-
Operating Transfers In	3,263,078	-	2,594	231,563
Operating Transfers Out	(19,484)	(360,331)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	3,243,594	(360,331)	2,594	231,563
Net Change In Fund Balances	(1,125,381)	443,870	160,234	1,054
Fund Balances, Beginning of Year	3,662,227	2,775,837	1,983,051	302,334
Fund Balances, End of Year	\$2,536,846	\$3,219,707	\$2,143,285	\$303,388

The accompanying notes are an integral part of this statement.

Capital Projects Fund (CO 2016)	Other Governmental Funds	Total Governmental Funds
-	-	\$3,446,333
-	-	2,866,815
-	\$37,921	242,884
-	-	287,671
\$31,134	29,221	99,604
-	71,772	989,636
-	730,775	815,184
-	10,228	23,476
-	-	14,773
-	178,433	402,767
31,134	1,058,350	9,181,867
-	-	1,114,905
-	-	725,653
-	118,414	161,880
-	-	1,984,960
-	3,015	2,273,509
-	-	188,320
-	-	126,736
-	10,574	779,691
-	-	757,464
-	-	88,709
-	-	269,292
-	-	175,062
-	224,497	224,497
-	719,868	1,683,881
-	-	648,451
-	-	1,050,002
-	-	553,382
-	1,076,368	12,806,394
31,134	(18,018)	(3,624,527)
7,655,000	-	7,655,000
234,321	-	234,321
(136,727)	-	(136,727)
-	31,142	3,528,377
(2,594)	(5,370)	(387,779)
7,750,000	25,772	10,893,192
7,781,134	(7,754)	7,268,665
-	331,871	9,055,320
\$7,781,134	\$339,625	\$16,323,985

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

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$7,268,665
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOA.	1,683,881
Loss on disposition of capital assets in the SOA is not reported in the funds.	(39,142)
The depreciation of capital assets used in the governmental activities are not reported in the funds.	(1,165,988)
Interest paid for advance refunding of bonds is expensed in the funds but is deferred and amortized in the SNP. This is the change in amounts this year.	(13,030)
Premium received with bond issuance is revenue in the Funds, but is deferred and amortized in the SNP. This is the change in these amounts this year.	(197,063)
Certain property taxes are deferred inflows in the funds. This is the change in these amounts this year.	30,362
Interest is not expensed until paid in the funds but is expensed when incurred in the SOA. This is the change in these amounts this year.	(5,417)
Payables for compensated absences which were not due in the current period are not reported in the funds. This is the change in these amounts this year.	(16,770)
Proceeds from issuance of debt is an other financing source in the funds But not in the SOA.	(7,655,000)
Repayment of debt principal is an expenditure in the funds but is not an expense in the SOA.	1,050,002
Change in net pension obligation and deferred outflows related to pensions are not reported as expenses in the SOA.	<u>(135,941)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$804,559</u>

The accompanying notes are an integral part of this statement.

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

	Business-Type Activities – Enterprise Funds			
	Electric	Water and Wastewater	Solid Waste	Total
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$7,395,747	\$1,329,763	\$432,692	\$9,158,202
Investments	5,749,487	-	-	5,749,487
Cash – Restricted	11,631	1,657,655	-	1,669,286
Accounts Receivable, Net	1,688,668	233,156	57,915	1,979,739
Inventory	249,766	76,483	-	326,249
Due from Other Governments	-	329,877	-	329,877
Prepaid Assets	-	10,978	-	10,978
Due from Other Funds	-	-	-	-
TOTAL CURRENT ASSETS	15,095,299	3,637,912	490,607	19,223,818
Property, Plant and Equipment	11,829,620	27,984,474	-	39,814,094
Less: Allowance For Depreciation	(4,112,079)	(9,248,397)	-	(13,360,476)
Net Property, Plant and Equipment	7,717,541	18,736,077	-	26,453,618
TOTAL ASSETS	22,812,840	22,373,989	490,607	45,677,436
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows Related to Pensions	93,198	125,158	-	218,356
TOTAL DEFERRED OUTFLOWS OF RESOURCES	93,198	125,158	-	218,356
LIABILITIES				
CURRENT LIABILITIES:				
Accounts Payable	1,785,349	72,196	47,180	1,904,725
Customer Overpayments Payable	44,365	-	-	44,365
Payable from Restricted Assets	-	31,235	-	31,235
Due to State/Federal Agencies	32,683	-	5,039	37,722
Due to Other Funds	746,933	76,162	11,138	834,233
Accrued Interest Payable	-	9,661	-	9,661
Service Deposits	245,725	39,865	450	286,040
Current Maturities of Long-term Liabilities	16,195	604,093	-	620,288
TOTAL CURRENT LIABILITIES	2,871,250	833,212	63,807	3,768,269
Long-term Liabilities, net of Current Portion	423,734	6,526,802	-	6,950,536
TOTAL LIABILITIES	3,294,984	7,360,014	63,807	10,718,805
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows Related to Pensions	4,163	4,451	-	8,614
TOTAL DEFERRED INFLOWS OF RESOURCES	4,163	4,451	-	8,614
NET POSITION				
Net Investment in Capital Assets	7,717,541	13,038,051	-	20,755,592
Restricted for Debt Service	-	789,785	-	789,785
Unrestricted (Deficit)	11,889,350	1,306,846	426,800	13,622,996
TOTAL NET POSITION	\$19,606,891	\$15,134,682	\$426,800	\$35,168,373

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities – Enterprise Funds			
	Electric	Water and Wastewater	Solid Waste	Total
<u>OPERATING REVENUES:</u>				
Charges for Services, Net	\$15,903,554	\$3,372,107	\$734,145	\$20,009,806
Investment Income	43,907	11,723	2,284	57,914
Grant Income	-	88,391	-	88,391
TOTAL OPERATING REVENUES	15,947,461	3,472,221	736,429	20,156,111
<u>OPERATING EXPENSES:</u>				
Power Purchases	14,748,312	-	-	14,748,312
Purchased Power Rebate	(771,939)	-	-	(771,939)
Personnel Costs	558,455	654,259	-	1,212,714
Distribution Supplies and Contracts	13,517	97,945	560,215	671,677
Maintenance and Repairs	247,069	777,820	-	1,024,889
Other Charges and Services	21,764	322,013	-	343,777
Interest Expense	16,877	130,426	-	147,303
TOTAL OPERATING EXPENSES	14,834,055	1,982,463	560,215	17,376,733
NET OPERATING INCOME (LOSS) BEFORE DEPRECIATION	1,113,406	1,489,758	176,214	2,779,378
LESS: Depreciation and Amortization	(125,331)	(452,059)	-	(577,390)
NET OPERATING INCOME (LOSS)	988,075	1,037,699	176,214	2,201,988
<u>NONOPERATING REVENUES (EXPENSES):</u>				
SRMPA - Cambridge Distribution	4,566,667	-	-	4,566,667
TOTAL NONOPERATING REVENUES (EXPENSES)	4,566,667	-	-	4,566,667
INCOME BEFORE TRANSFERS	5,554,742	1,037,699	176,214	6,768,655
Operating Transfers In	-	89,504	-	89,504
Operating Transfers Out	(2,388,244)	(615,758)	(226,100)	(3,230,102)
CHANGES IN NET POSITION	3,166,498	511,445	(49,886)	3,628,057
NET POSITION, BEGINNING OF YEAR	16,440,393	14,623,237	476,686	31,540,316
NET POSITION, END OF YEAR	\$19,606,891	\$15,134,682	\$426,800	\$35,168,373

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities – Enterprise Funds			
	<u>Electric</u>	<u>Water & Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Cash Received from Customers	\$15,809,859	\$3,122,050	\$730,307	\$19,662,216
Cash Received from Suppliers for Rebate	771,939	-	-	771,939
Cash Paid to Suppliers for Goods and Services	(15,024,734)	(1,086,382)	(546,979)	(16,658,095)
Cash Paid to Employees for Services	(558,455)	(654,259)	-	(1,212,714)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	998,609	1,381,409	183,328	2,563,346
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>				
Operating Transfers, In (Out)	(1,263,488)	89,504	-	(1,173,984)
Transfers to General Fund	(1,124,756)	(615,758)	(226,100)	(1,966,614)
Grant Income	-	88,391	-	88,391
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(2,388,244)	(437,863)	(226,100)	(3,052,207)
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>				
Interest on Debt Paid	(18,866)	(127,330)	-	(146,196)
Principal Payments on Debts	(455,000)	(565,000)	-	(1,020,000)
Acquisition of Capital Assets	(864,319)	(1,258,046)	-	(2,122,365)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,338,185)	(1,950,376)	-	(3,288,561)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Cambridge Revenue	4,566,667	-	-	4,566,667
Interest on Cash and Investments	43,907	11,723	2,284	57,914
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	4,610,574	11,723	2,284	4,624,581
NET INCREASE (DECREASE) IN CASH	1,882,754	(995,107)	(40,488)	847,159
CASH & INVESTMENTS, BEGINNING OF YEAR	11,274,111	3,982,525	473,180	15,729,816
<u>CASH & INVESTMENTS, END OF YEAR</u>	\$13,156,865	\$2,987,418	\$432,692	\$16,576,975

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2017

Reconciliation of Income before Transfers to Net Cash Provided (Used) by Operating Activities:

Income Before Transfers	\$5,554,742	\$1,037,699	\$176,214	\$6,768,655
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities -				
Depreciation and Amortization	125,331	452,059	-	577,390
Nonoperating Income	(4,566,667)	-	-	(4,566,667)
Investment Income	(43,907)	(11,723)	(2,284)	(57,914)
Grant Income	-	(88,391)	-	(88,391)
Interest Expense	16,877	130,426	-	147,303
(Increase) Decrease in:				
Accounts Receivable	(48,672)	93,771	(3,838)	41,261
Inventory	(31,260)	27,439	-	(3,821)
Due from Other Governments	-	(329,877)	-	(329,877)
Prepaid Assets	-	(10,978)	-	(10,978)
Increase (Decrease) in:				
Accounts Payable	(249,251)	67,427	6,958	(174,866)
Customer Overpayments	(2,591)	-	-	(2,591)
Due to State/Federal Agencies	1,312	-	(4)	1,308
Due to Other Funds	274,286	(17,153)	6,282	263,415
Service Deposits	(42,432)	(2,973)	-	(45,405)
Compensated Absences Payable	1,747	9,903	-	11,650
Pension Items	9,094	23,780	-	32,874
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$998,609	\$1,381,409	\$183,328	\$2,563,346

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED SEPTEMBER 30, 2017

<u>ASSETS</u>	Employees Pension <u>Trust Fund</u>
Investments, at Fair Value:	
Growth & Income Fund	\$1,563
Money Market Fund	104
Bond Fund	227
Balanced Fund	972
Fixed Income Account	49,014
Foreign Equity Portfolio Fund	834
Equity – Income Portfolio Fund	1,791
Growth Portfolio Fund	<u>935</u>
TOTAL ASSETS	<u>\$55,440</u>
 <u>NET POSITION</u>	
Net Position of Assets Held In Trust For Pension Benefits	<u>\$55,440</u>
TOTAL NET POSITION	<u>\$55,440</u>

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED SEPTEMBER 30, 2017

	Employees Pension Trust Fund
<u>ADDITIONS:</u>	
Investment Income (Loss), Including Appreciation or Depreciation in Fair Value of Investments	<u>\$4,186</u>
TOTAL	<u>4,186</u>
<u>DEDUCTIONS:</u>	
Withdrawals	<u>(68,157)</u>
TOTAL	<u>(68,157)</u>
CHANGE IN NET POSITION	(63,971)
Net Position – Beginning of Year	<u>119,411</u>
Net Position – End of Year	<u><u>\$55,440</u></u>

The accompanying notes are an integral part of this statement.

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CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Liberty, Texas (the City) is a Home Rule City which operates under a City Charter adopted by the voters in 1958. The Charter provides for a Council – Manager form of government comprised of a mayor and six council members. It is the Council's responsibility to appoint a City Manager who is the chief administrative and executive officer of the City.

The City's major operations include public safety, fire protection, emergency medical services, parks and recreation, library, and general administrative services. Additionally, the City operates utility funds for the provision of utilities, including electric, water and wastewater, and solid waste services. The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity –

For financial reporting purposes, the City includes all funds, agencies and boards that are controlled by or dependent on the City Council. Control or dependence is determined on the basis of control of the governing board, budget adoption, taxing authority, and responsibility for debts or deficits.

The accompanying financial statements include those of the City of Liberty (the primary government) and its component unit. The Liberty Community Development Corporation (the Corporation), an entity legally separate from the City, is a non-profit industrial development corporation whose purpose is to promote economic development within the City. The Corporation is governed by a seven-member board that is appointed by the City Council. The budget, policies and directives of the Corporation are subject to approval by the City Council. Therefore, the Corporation is reported as if it were part of the City's operations, and is included in the financial reporting entity as a blended component unit. Its financial activity is reported as a major special revenue fund, a debt service fund and a capital projects fund in the accompanying financial statements. There are no other entities that should be included in the City's reporting entity because of significant operational or financial relationships to the City.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation –

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

Government-Wide Statements: The Statement of Net Position and the Statement of Activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed through user charges.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self financing or draws from the general revenues of the City.

Fund Financial Statements: Fund financial statements report detailed information about the City. Separate financial statements are provided for governmental funds and proprietary funds. The focus of governmental and proprietary fund financial statements is on the major funds rather than reporting funds by type. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Governmental Fund Types: All governmental funds are reported using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes receivable, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property taxes are recorded and deferred until they become available. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. The funds included in this category are as follows:

General Fund – This fund is the general operating fund of the City and is used to account for resources and functions traditionally associated with governments that are not required to be accounted for in another fund.

Special Revenue Funds – These funds are established to account for the proceeds of specific revenue sources other than assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, all general obligation indebtedness not serviced by the proprietary funds.

Capital Projects Funds – These funds are used to account for all major capital expenditures not financed by the proprietary or trust funds.

Proprietary Fund Types: All proprietary funds are accounted for using the accrual basis of accounting and the economic resources measurement focus. These funds account for operations that are primarily financed by user charges. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating expenses of the City's proprietary fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City's funds included in this category are the utility funds and an internal service fund. Utility funds are used to account for operations financed and operated in a manner similar to private business enterprises, where the intent of the Council is that the cost of providing certain goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges for those services. Utility funds for the City consist of the Electric Fund, Water and Wastewater Fund, and Solid Waste Fund.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund Types: Fiduciary fund statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. These fund types account for assets held by the City as a trustee or agent for individuals, organizations, and other units of governments. The City currently has one fiduciary fund, the Pension Trust Fund. This fund was established to provide pension benefits for City employees. The principal revenue source for this fund is earnings from investments. The assets of this fund and results of operations have not been combined with other funds of the City in the accompanying financial statements. (See Note 9).

C. Use of Estimates –

The preparation of financial statements in conformity with generally accepted accounting principles, as applicable to governmental entities, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Budgets and Budgetary Accounting –

Prior to September 30, of each year, the City adopts a budget for the fiscal year beginning October 1, of that year. The budget, which includes anticipated revenues and expenditures, is adopted for the Governmental Fund Types and all Proprietary Funds. The budget is amended by the Council as needed throughout the year.

E. Interfund Transactions and Balances –

Interfund transactions intended to reflect the transfer of resources between funds are reflected as transfers. Certain transactions representing short-term liabilities between funds are recorded as receivables and payables in the respective funds at the time the transactions are reported on the fund basis statements.

F. Cash and Investments -

For purposes of the Statement of Cash Flows, the City considers all certificates of deposit with a maturity of one year or less when issued to be cash equivalents. Cash deposits and certificates of deposit are reported at their carrying amount, which reasonably estimates fair value.

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value based on market indicators regarded as measures of equity or fixed income performance results. The city does not have investments valued at other than quoted market prices.

G. Restricted Cash –

As of September 30, 2017, the City had cash restricted as follows:

	<u>Restricted</u>
Cash Restricted for Debt Service – City Governmental	\$2,124,902
Cash Restricted for Debt Service – LCDC Governmental	300,828
Cash Restricted for Debt Service – Proprietary Funds	799,446
Cash Restricted for Building Security & Technology	63,472
Cash from Certificates of Obligation, Series 2012, Restricted for Capital Improvements	5,068
Cash from Certificates of Obligation, Series 2010, Restricted for Electrical Capital Project	11,631
Cash from Bonds Payable, Series 2007, Restricted for Water and Wastewater Capital Project	239,538
Cash from Certificates of Obligation, Series 2016, Restricted for Various Capital Projects	7,781,134
Cash from Bonds Payable, Series 2016 A, Restricted for Water and Wastewater Capital Projects	519,097
Cash from Bonds Payable, Series 2016 B, Restricted for Water and Wastewater Capital Projects	99,574
Total Restricted Cash	<u>\$11,944,690</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Accounts Receivable –

Accounts receivable from electric, water and wastewater, and solid waste services are presented net of allowance for doubtful accounts of \$39,964 at September 30, 2017. The change in allowance from prior year has been netted against charges for service revenue.

I. Inventories –

The City does not maintain significant inventories of materials and supplies in the governmental fund types, except for street department materials. Inventories of materials and supplies are maintained for the proprietary funds. The inventory of each fund is recorded at cost (first-in, first-out basis), which is lower than market.

J. Capital Assets and Depreciation –

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. The minimum capitalization threshold is any individual item with a total cost greater than \$5,000.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the general capital assets. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets are being depreciated using the straight-line method and depreciation expense for governmental assets is specifically identified by function with general assets being allocated based on a percentage of governmental functional expenditures over total governmental expenditures.

Depreciation expense for the proprietary funds is recorded in each respective proprietary fund. The following estimated useful lives are used for calculating depreciation expense:

<u>Depreciable Life</u>	
Infrastructure	15-40
Building & improvements	15-40
System	15-40
Vehicles	5-7
Heavy equipment	5-10
Office equipment	3-5

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources –

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an addition to net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

L. Fund Balances –

Governmental Accounting Standards Board (GASB) Statement No. 54-*Fund Balance Reporting and Government Fund Type Definitions* establishes fund balance classifications based primarily on the extent to which the City is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures.

In the fund financial statements, governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the City Council through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the City Council. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in any other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

For the government-wide financial statements, net position are reported as restricted when constraints placed on net position are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

M. Net Position –

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the city-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Retirement Plan –

During the fiscal year 2002 the City elected to terminate its defined contribution retirement plan and began contributing to a defined benefit retirement plan. All plan costs are funded by the City on a current basis. See additional information in Note 9.

O. Pensions –

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

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions –

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not applicable

B. Deficit Fund Balance or Fund Net Assets of Individual Funds –

Following are funds having deficit fund balances or fund net assets at year-end, if any, along with remarks that address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None		

NOTE 3 – CASH DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities 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.

A. Cash Deposits –

At September 30, 2017, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$26,522,338 and the bank balance was \$26,804,399. The City's cash deposits at September 30, 2017, and during the year ended September 30, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments –

The City is required by Government Code Chapter 2256, the Public Funds Investment Act, 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.

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments that are allowable for the City. These include, with certain restrictions, (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) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and commercial paper.

The City's investments at September 30, 2017, are shown below:

<u>Investment</u>	
U. S. Treasuries:	
U. S. Treasury Bill	\$1,999,559
U. S. Treasury Bill	3,749,928
Mutual Funds:	
American Funds Capital Income Builder A	12,683
Franklin Income A	9,649
Franklin High Income A	8,605
American Funds Income Fund of America A	14,219
Federated High Income Bond Fund A #317	6,579
Equity Funds:	
American Funds Capital World Growth & Income	11,787
Franklin Templeton Rising Dividends	13,433
Franklin Templeton Founding Allocation A	8,933
American Funds Washington Mutual A	13,417
American Funds New Perspective A	13,301
	<u>\$5,862,093</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

C. 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:

1. Credit Risk

Credit risk is 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. The following investments had the respective Morningstar Ratings (Morningstar 5 - highest to Morningstar 1 - lowest) at September 30, 2017.

At September 30, 2017, the City's investments, other than those which are obligations of or guaranteed by the U.S. Government, are rated as to credit quality as follows:

Investment	Credit Rating
Mutual Funds:	
American Funds Capital Income Builder	Morningstar Rating 4
Franklin Templeton Income A	Morningstar Rating 4
Franklin Templeton High Income	Morningstar Rating 2
American Funds Income Fund of America A	Morningstar Rating 5
Federated High Income Bond Fund A #317	Morningstar Rating 4
Equity Funds:	
American Funds Capital World Growth & Income	Morningstar Rating 4
Franklin Templeton Rising Dividends	Morningstar Rating 3
Franklin Templeton Founding Allocation	Morningstar Rating 2
American Funds Washington Mutual A	Morningstar Rating 4
American Funds New Perspective A	Morningstar Rating 5

2. 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, and 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.

3. Concentration of Credit Risk

This risk is 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.

4. Interest Rate Risk

This is 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.

5. Foreign Currency Risk

This is 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.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4 – PROPERTY TAXES

Taxable property within the City is subject to assessment, levy and collection of ad valorem taxes necessary to provide for the payment of general obligation indebtedness, and to support the general governmental services provided. The City's Charter adopts the provisions of Article XI, Section 5 of the Texas Constitution, which limits the tax rate that the City can levy for all purposes to \$2.50 per \$100 valuation. The total tax rate for the fiscal year ended September 30, 2017 was \$0.6100 per \$100 assessed valuation based on the total net assessed value of \$587,398,092. This includes a debt service rate of \$0.2552 per \$100 assessed valuation and a maintenance and operations rate of \$0.3548 per \$100 assessed valuation.

Taxes are levied on October 1 of each year, and are payable without penalty or interest through the following January 31. The City recognizes property tax revenue when levied to the extent that it results in current receivables. Property taxes are collected and remitted to the City by the Liberty County Tax Assessor Collector's office.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes receivable of \$429,962 at September 30, 2017 are based on historical experience in collecting property taxes. Uncollectible personal property taxes 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.

NOTE 5 – DUE TO/FROM OTHER FUNDS

As of September 30, 2017, interfund receivables and payables consisted of the following:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Solid Waste Fund	\$9,464	Sales Tax Collection
General Fund	Electric Fund	527,389	Short term loan
General Fund	LCDC	40	Short term loan
General Fund-Fixed Asset Repl.	Electric Fund	219,544	Short term loan
General Fund-Fixed Asset Repl.	Water & Wastewater	76,162	Short term loan
LCDC	Solid Waste	1,674	Sales Tax Collection
LCDC Debt Service	LCDC	2,560	Short term loan
Debt Service	General Fund	13,797	Tax Collection
		<u>\$850,630</u>	

All amounts due are scheduled to be repaid within one year.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6 – TRANSFERS BETWEEN FUNDS

Transfers between funds during 2017 consisted of the following:

<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Amount</u>
General Fund	Electric Fund	\$2,298,740
General Fund	Water & Wastewater Fund	615,758
General Fund	Solid Waste Fund	226,100
General Fund	LCDC	122,480
	Total	<u>\$3,263,078</u>
Water & Wastewater Fund	Electric Fund	<u>\$89,504</u>
Airport Fund	LCDC Fund	<u>\$6,288</u>
Hotel-Motel/Tourism Fund	General Fund	<u>\$9,484</u>
Library Memorial Fund	Municipal Library Trust	<u>\$5,370</u>
LCDC Debt Service Fund	LCDC Fund	<u>\$231,563</u>
Debt Service	Capital Projects (CO2016)	<u>\$2,594</u>

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases & Transfers</u>	<u>Ending Balances</u>
<u>Governmental Activities:</u>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$1,317,720	\$27,500	-	\$1,345,220
Construction in Progress	3,743,955	-	\$(433,356)	3,310,599
Total Capital Assets Not Being Depreciated	<u>5,061,675</u>	<u>27,500</u>	<u>(433,356)</u>	<u>4,655,819</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	14,058,405	75,000	(16,000)	14,117,405
Infrastructure	52,638,189	754,848	433,356	53,826,393
Vehicles	2,046,012	402,499	(327,544)	2,120,967
Furniture and Equipment	4,168,946	424,034	(691,063)	3,901,917
Assets Held Under Capital Lease	365,000	-	-	365,000
Total Capital Assets Being Depreciated	<u>73,276,552</u>	<u>1,656,381</u>	<u>(601,251)</u>	<u>74,331,682</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	6,377,079	354,506	(16,000)	6,715,585
Infrastructure	39,446,450	325,085	-	39,771,535
Vehicles	1,253,819	202,481	(301,985)	1,154,315
Furniture and Equipment	3,333,196	259,583	(677,480)	2,915,299
Assets Held Under Capital Lease	91,249	24,333	-	115,582
Total Accumulated Depreciation	<u>50,501,793</u>	<u>1,165,988</u>	<u>(995,465)</u>	<u>50,672,316</u>
Total Capital Assets Being Depreciated, Net	<u>22,774,759</u>	<u>490,393</u>	<u>394,214</u>	<u>23,659,366</u>
Governmental Activities Capital Assets, Net	<u>\$27,836,434</u>	<u>517,893</u>	<u>\$(39,142)</u>	<u>\$28,315,185</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation was charged to functional expenditures as follows:

Governmental Activities:

Administration	\$55,305
Business and Support Services	31,693
Economic Development	7,070
Fire /EMS	364,160
Police	254,530
Municipal Court	8,661
Animal Control	5,535
Library	135,839
Streets	105,828
Maintenance	7,389
Parks & Recreation	58,900
Inspection Services	8,082
Airport Operations	122,996
Total Depreciation Expense	<u>\$1,165,988</u>

	Beginning Balances	Increases	Decreases & Transfers	Ending Balances
<i>Business-Type Activities:</i>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$2,568	-	-	\$2,568
Construction in Progress	13,048,420	\$1,892,249	\$(11,261,560)	3,679,109
Total Capital Assets Not Being Depreciated	<u>13,050,988</u>	<u>1,892,249</u>	<u>(11,261,560)</u>	<u>3,681,677</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	1,049,482	-	(200,000)	849,482
System Improvements	22,472,141	-	7,725,186	30,197,327
Vehicles	383,105	17,917	(12,218)	388,804
Furniture and Equipment	1,014,147	168,114	(65,915)	1,116,346
Infrastructure	-	44,085	3,536,373	3,580,458
Total Capital Assets Being Depreciated	<u>24,918,875</u>	<u>230,116</u>	<u>10,983,426</u>	<u>36,132,417</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	351,026	17,108	(200,000)	168,134
System Improvements	11,564,833	512,396	-	12,077,229
Vehicles	380,920	17,616	(12,219)	386,317
Furniture and Equipment	764,441	30,270	(65,915)	728,796
Total Accumulated Depreciation	<u>13,061,220</u>	<u>577,390</u>	<u>(278,134)</u>	<u>13,360,476</u>
Total Capital Assets Being Depreciated, Net	<u>11,857,655</u>	<u>(347,274)</u>	<u>11,251,560</u>	<u>22,771,941</u>
Business-type Activities Capital Assets, Net	<u>\$24,908,643</u>	<u>\$1,544,975</u>	<u>\$-</u>	<u>\$26,453,618</u>

Depreciation was charged to functional expenditures as follows:

Business-type Activities

Water & Wastewater	\$452,059
Electric	125,331
Total Depreciation Expense	<u>\$577,390</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2017 was as follows:

	Rate	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due in One Year
<u>Governmental Activities:</u>						
Bonds:						
Certificates of Obligation, Series 2010A (Maturing 3/1/2030)	2.0-4.0%	\$4,160,000	-	\$(230,000)	\$3,930,000	\$230,000
Tax & Revenue Certificates Of Obligation, Series 2012 (Maturing 3/1/2032)	2.0-4.0%	1,530,000	-	(75,000)	1,455,000	75,000
General Obligation Refunding Bonds, Series 2012 (Maturing 3/1/24)	2.0-2.5%	2,145,000	-	(250,000)	1,895,000	255,000
LCDC Sales Tax Bonds, Series 2014 (Maturing 3/1/2034)	3.0-4.0%	2,985,000	-	(120,000)	2,865,000	125,000
Certificates of Obligation, Series 2016 (Maturing 3/1/2036)	2.0-3.0%	-	\$7,655,000	(315,000)	7,340,000	300,000
Bond Premium		309,423	234,321	(37,258)	506,486	-
Total Bonds		11,129,423	7,889,321	(1,027,258)	17,991,486	985,000
Capital Lease-Fire Truck		140,315	-	(42,089)	98,226	43,044
LCDC Note Payable	4.0%	456,540	-	(17,913)	438,627	18,643
Other Liabilities:						
Compensated Absences		365,937	290,156	(273,386)	382,707	382,707
Net Pension Liability		5,166,168	-	(130,682)	5,035,486	-
Total Governmental Activities		\$17,258,383	\$8,179,477	\$(1,491,328)	\$23,946,532	\$1,429,394
<u>Business-type Activities:</u>						
Bonds:						
Tax & Revenue Certificates of Obligation, Series 2007 (Maturing 3/1/28)	1.9- 2.55%	\$5,275,000	-	\$(385,000)	\$4,890,000	\$395,000
Utility System Revenue Bonds, Series 2016A (Maturing 3/1/26)	0.0- 0.94%	900,000	-	(90,000)	810,000	90,000
Utility System Revenue Bonds, Series 2016B (Maturing 3/1/26)	0.0- 0.89%	915,000	-	(90,000)	825,000	90,000
Tax & Revenue Certificates of Obligation, Series 2010 (Maturing 9/1/20)	5.5%	455,000	-	(455,000)	-	-
Bond Discount		(36,482)	-	3,648	(32,834)	-
		7,508,518	-	(1,016,352)	6,492,166	575,000
Other Liabilities:						
Compensated Absences		33,638	41,586	(29,936)	45,288	45,288
Net Pension Liability		1,058,131	-	(24,761)	1,033,370	-
Total Business-type Activities		\$8,600,287	\$41,586	\$(1,071,049)	\$7,570,824	\$620,288

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8 – LONG TERM LIABILITIES (CONTINUED)

Governmental Activity Bonds and Certificates of Obligation

General obligation bonds and certificates are serviced by the debt service fund. The amount of long-term debt that can be incurred by the City is not limited by state statute or the City's Home Rule Charter. The only limitation would be the overall tax rate limitation of \$2.50 per \$100 assessed valuation. Bond covenants for the general obligation bonds and certificates of obligation require the City to levy a tax sufficient to pay the current interest and principal of the debt. During the current year, the City was in compliance with these bond covenants. Principal and interest requirements to retire the City's general long-term bonds and certificates of obligation are as follows as of September 30, 2017:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2018	\$860,000	\$414,905	\$1,274,905
2019	895,000	390,655	1,285,655
2020	920,000	363,555	1,283,555
2021	950,000	335,580	1,285,580
2022	980,000	305,943	1,285,943
2023-2027	4,450,000	1,077,680	5,527,680
2028-2032	3,745,000	428,167	4,173,167
2033-2036	1,820,000	77,490	1,897,490
Total	\$14,620,000	\$3,393,975	\$18,013,975

In October, 2012, the City issued \$2.7 million General Obligation Refunding Bonds, Series 2012. The bonds were issued to effect an advance refunding of a substantial portion of the Certificates of Obligation, Series 2004. The proceeds from the issuance were placed with a trustee such that funds would be available to pay the debt on the refunding date. As such, the debt is considered defeased and is no longer considered a liability of the City. In accordance with GASB Statement No. 65, the amount placed with the trustee that represents interest on the refunded debt has been deferred in the governmental activities statement of net position and amortized to expense over the term of the new debt issued.

In April, 2012, the City issued \$1.75 million Tax and Revenue Certificates of Obligation, Series 2012. The funds will be utilized to construct, improve and equip certain municipal buildings including the police station, cultural center and public works. The bonds are to be paid from a tax levy on appraised property in the city. The bonds are further secured by surplus revenues of the water and sewer system of the City. The remaining proceeds of the debt issuance are reflected as restricted cash as of September 30, 2017.

In September, 2010, the City issued General Obligation Refunding Bonds, Series 2010 of \$3.1 million and refunded both the Tax Anticipation Notes of \$975 thousand that had been issued earlier in the year and the General Obligation Refunding Bonds, Series 1998. The interest rate on the Series 2010 bonds is lower than both of the debt issuances that were refunded. Additionally, in September, 2010, the City issued Certificates of Obligation, Series 2010A of \$4.7 million. The purpose of the Series 2010A issuance is to provide funding for the various capital needs of the City.

In October, 2016, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2016 of \$7.655 million. The funds will be utilized to construct, improve and repair various fixed assets of the City. The bonds are to be paid from a tax levy on appraised property in the City. The bonds are further secured by surplus revenues of the water and sewer system of the City. The remaining proceeds of the debt issuance are reflected as restricted as of September 30, 2017.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8 – LONG TERM LIABILITIES (CONTINUED)

In March, 2014, the LCDC issued Sales Tax Revenue Bonds, Series 2014 of \$3.215 million for a street construction project within the City of Liberty. The bonds will be paid from the one-half cent sales tax collected each year. Principal and interest requirements to retire LCDC's long-term bonds are as follows as of September 30, 2017:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2018	\$125,000	\$107,888	\$232,888
2019	130,000	104,063	234,063
2020	130,000	99,513	229,513
2021	135,000	94,213	229,213
2022	145,000	88,613	233,613
2023-2027	800,000	362,932	1,162,932
2028-2032	960,000	195,263	1,155,263
2033-2034	440,000	18,912	458,912
Total	\$2,865,000	\$1,071,397	\$3,936,397

Governmental Activities Notes Payable

During July, 2014, LCDC financed the purchase of a fire truck for the City of Liberty by issuing a note payable through Houston Galveston Area Council on Governments. The note will be paid back utilizing sales tax revenue of LCDC. The future debt service requirements on the note are as follows:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2018	\$18,643	\$17,205	\$35,848
2019	19,402	16,446	35,848
2020	20,193	15,655	35,848
2021	21,015	14,833	35,848
2022	21,872	13,977	35,849
2023-2027	123,473	55,769	179,242
2028-2032	150,759	28,483	179,242
2033-2034	63,270	2,454	65,724
Total	\$438,627	\$164,822	\$603,449

Business-type Activities Bonds and Certificates of Obligation

The City also has debt obligations in the proprietary funds. That debt will be paid from the net revenues of the utility systems. Principal and interest requirements to retire the proprietary funds debt obligations are as follows:

<u>Water & Wastewater Fund</u>			
<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2018	575,000	117,541	692,541
2019	585,000	108,739	693,739
2020	595,000	99,514	694,514
2021	600,000	90,015	690,015
2022	610,000	80,020	690,020
2023-2027	3,060,000	223,151	3,283,151
2028	500,000	6,375	506,375
Total	\$6,525,000	\$725,355	\$7,250,355

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8 – LONG TERM LIABILITIES (CONTINUED)

In April, 2016, the City issued Utility System Revenue Bonds of \$1.8 million. The Utility System Revenue Bonds, Series 2016A (\$900,000) and Series 2016B (\$915,000) were issued to fund improvements to the wastewater and water systems of the City, respectfully. The bonds will be paid from the revenues of the utility system. The remaining net proceeds from the debt issuance is reflected as restricted cash as of September 30, 2017.

In May, 2010, the City issued \$2.5 million Tax and Revenue Certificates of Obligation, Series 2010. The funds were utilized for extensions and improvements to the electrical system of the City. The bonds were paid from the revenues of the utility system. The debt was fully paid during fiscal year 2017.

Governmental Activities Capital Leases

During 2013, the City entered into a capital lease for the purchase of a fire truck. Property held under capital leases at September 30, 2017 totaled \$365,000. Future minimum lease payments for the capital lease as of September 30, 2017, are as follows:

<u>Year Ending September 30,</u>	
2018	\$44,893
2019	44,893
2020	11,223
Total	101,009
Amount Representing Interest	(2,783)
Total	<u>\$98,226</u>

Compensated Absences

City employees are entitled to certain compensated absences based on the length of their employment. Sick leave may be carried from one year to the next year. Employees with more than five years of service with the City will be paid for unused sick leave upon separation of employment. The amount of leave is based on their length of service with the maximum amount paid between 20 days and 60 days. Compensation for vacation time may be carried from one year to the next year. Employees will be paid for unused vacation time up to two times their annual vacation days upon separation of employment. Unused accrued vacation in excess of these days will not be reimbursed. Additionally, employees can accumulate up to 40 hours per year in compensation time to be used as time off from work. Accrued compensated absences at September 30, 2017, were \$427,995.

NOTE 9 – RETIREMENT PLANS

A. Employee Pension Plan –

Substantially all full time employees of the City of Liberty were covered by the City of Liberty Employee Pension Plan, a qualified defined contribution retirement plan. During fiscal year 2002, the City terminated the plan. The plan was established by action of the City Council, and the City acts as plan administrator. The City funded all costs on a current basis through contributions equal to 10% of the qualifying gross salary of participating employees. No employee contributions were required for participation. The City did not incur any costs under the plan for the year ended September 30, 2017. Additionally, the City has no unfunded liabilities to the plan. Employees' interest are vested at the rate of 10% per year for the first four years of employment, and 20% per year for the next three years of employment, with 100% vesting after seven years. Due to the plan termination during 2002, the participants were allowed to rollover their vested amounts upon termination of the plan. A separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are presented in the accompanying financial statements.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 9 – RETIREMENT PLANS (CONTINUED)

B. TMRS Pension Plan –

1. Description of Plan –

The City participates as one of 872 plans in the non-traditional, 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. The TMRS 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.

2. Benefits Provided –

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Deposit rate:	7%
Matching Ratio (City to Employee):	2 to 1
Vesting Period:	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibility for the City, expressed as Age/ Years of Service is: "60/5, any age/20."

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

Inactive employees or beneficiaries currently receiving benefits	36
Inactive employees entitled to but not yet receiving benefits	117
Active employees	<u>97</u>
	<u>250</u>

3. Contributions –

Under 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 of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 17.74% and 18.79% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$819,924 and were equal to the required contributions.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 9 – RETIREMENT PLANS (CONTINUED)

4. Net Pension Liability –

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

Actuarial Assumptions

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

Actuarial Assumptions

	<u>12/31/16</u>
Investment rate of return	6.75%, net of pension plan investment expense, including inflation
Inflation	2.5%
Overall payroll growth	3.0%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 9-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 9 – RETIREMENT PLANS (CONTINUED)

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

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2015	\$13,855,175	\$7,630,876	\$6,224,299
Changes for the year:			
Service cost	520,691	-	520,691
Interest	935,272	-	935,272
Change in benefit terms	-	-	-
Difference between expected and actual experience	(76,539)	-	(76,539)
Changes in assumptions	-	-	-
Contributions – employer	-	735,499	(735,499)
Contributions – employee	-	290,194	(290,194)
Net investment income	-	515,312	(515,312)
Benefit payments, including refunds of employee contributions	(519,266)	(519,266)	-
Administrative expense	-	(5,824)	5,824
Other changes	-	(314)	314
Net changes	860,158	1,015,601	(155,443)
Balance at 12/31/2016	<u>\$14,715,333</u>	<u>\$8,646,477</u>	<u>\$6,068,856</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 9 – RETIREMENT PLANS (CONTINUED)

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$8,086,057	\$6,068,856	\$4,404,548

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2017, the City recognized pension expense of \$988,734. At yearend, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$97,150	\$(53,894)
Changes in actuarial assumptions	242,836	-
Difference between projected and actual investment earnings	319,577	(182)
Contributions subsequent to the measurement date	643,069	-
Total	\$1,302,632	\$(54,076)

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$643,069 will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	Net Deferred Outflows (Inflows)
Year Ended September 30:	
2018	\$320,163
2019	198,555
2020	86,815
2021	(46)
Total	\$605,487

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 9 – RETIREMENT PLANS (CONTINUED)

6. Deferred Compensation Plan –

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The group plan is basically available for all full-time employees on a strictly voluntary basis. No contributions are made by the City to this plan. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. The plan is administered by Ing Life Insurance and Annuity Company. The plan assets are held in trust for the exclusive benefits of the participants and their beneficiaries. The plan assets are not included in the financial statements of the City.

NOTE 10 – ELECTRIC SYSTEM

The City owns and operates a municipal electric distribution system for the benefit of its citizens. The electric distribution system consists of distribution lines, two substations (which are owned and operated by Sam Rayburn Municipal Power Agency) and interconnected transmission lines of Entergy Gulf States, which supply power to the City's system. The City furnishes electric service to its customers solely within its City limits.

The City is one of three voting members (consisting of the Cities of Liberty, Livingston, and Jasper, Texas) of the Sam Rayburn Municipal Power Agency (SRMPA). The SRMPA is a political subdivision of the State of Texas and is governed by a board of six directors, two of which are appointed by each member city.

SRMPA was formed to undertake the planning, financing, development, acquisition and operation of projects for the generation and transmission of electric power to supply the present and future needs of the member cities and the Vinton (Louisiana) Public Power Agency (the Participants). Each Participant is required by contract with SRMPA, to purchase its electrical requirements from SRMPA, and to pay liabilities under such contract as an operating and maintenance expense to its electrical system. An integral part of the bond indenture for long-term debt of SRMPA, are covenants that SRMPA will establish rates for electric power to the Participants sufficient to pay all debt service requirements (including funding of required reserves), all operating and maintenance costs of repairs and improvements. The City, as a Participant, is required to establish rates to its customers sufficient to meet its obligations to SRMPA under the exclusive power sales contract. As a result of SRMPA restructuring its debts, the City continued to receive a rebate on power costs due to overfunded debt service accounts of \$771,939 during 2017. This rebate is being used to defray the cost of purchased power. (See special item discussion in Note 15)

NOTE 11 – LIBERTY COMMUNITY DEVELOPMENT CORPORATION

As indicated in Note 1, the Liberty Community Development Corporation (LCDC) is a non-profit industrial development corporation whose purpose is to promote economic development within the City of Liberty. Due to the control and financial dependence exerted by the City over the Corporation, that entity is considered a component unit of the City for financial reporting purposes, and its financial activity is included in the accompanying financial statements as a special revenue fund. The Corporation is funded by a one-half (1/2) cent sales tax which became effective as of October 1995. During 2014, LCDC issued \$3.2 million of sales tax revenue bonds for a street construction project. The accompanying financial statements include an LCDC debt service fund associated with the bonds.

NOTE 12 – JOINT OPERATING AGREEMENT, PORT OF LIBERTY

Commencing in 1968, the City of Liberty entered into a joint operating agreement with the Chambers-Liberty Counties Navigation District (the District) which established certain terms with respect to the operation of the Port of Liberty (the Port). The Port facilities were constructed on land owned jointly by the City and the District, and the board of commissioners of the Port are appointed jointly by the City and the District, but neither entity can unilaterally appoint a majority of the board. The board of the Port is responsible for selection of management, development of a budget, and for continuing operations of the Port. The City does not account for revenues or expenditures for Port activities. The Port of Liberty has separate audited financial statements which may be obtained by contacting Port officials.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13 – INTERGOVERNMENTAL REVENUES AND GRANTS

The City received funding from federal and state programs as well as private grants as follows:

General Fund:	
County Fire Aid	\$8,733
Division of Emergency Management - Emergency Management Performance Grant	38,683
Indigent Defense Fee	2,460
Police – LEOSE	1,799
Fire- LEOSE	683
FEMA- Severe Storms	30,801
Texas A&M Forest Service Grant	1,250
Total General Fund	<u>\$84,409</u>
Proprietary Funds:	
Water and Wastewater Fund – CDBG – sewer system	\$55,190
Water and Wastewater Fund – FEMA Severe Storms	33,201
Total Proprietary Funds	<u>\$88,391</u>
Special Revenue Funds:	
Airport – TX DOT Grants	<u>\$730,775</u>

NOTE 14 – RISK MANAGEMENT AND CONTINGENCIES

The City is exposed to various risks of losses related to torts; theft, damage, or destruction of assets; errors and omission; injuries to employees or others; and natural disasters. The City's primary risk management activity is to maintain various types of insurance coverage to cover any significant losses that might be incurred.

The City is contingently liable with respect to claims or litigation arising from the ordinary course of operations. The settlement of such claims would require budget appropriations of future revenues. City officials have asserted that they have no significant pending or threatened litigation, or claims against the City that would have a material adverse effect on the financial position of the City. Federal and State funds received during the current year and prior years through various grant programs are subject to audit by the applicable agencies. The City does not anticipate any substantial disallowance of project costs for any of the projects.

NOTE 15 – SPECIAL ITEMS

As discussed in Note 10, the City is a member of SRMPA for electrical power purposes. In 2012, SRMPA entered into supplemental agreements to sell excess electrical capacity to third parties. Such agreements were named the "Cambridge Project" and the activities are not commingled with the normal operation of SRMPA. During 2017, the City received \$4.6 million from SRMPA for Cambridge Project net profits.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LIBERTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL
AND MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED SEPTEMBER 30, 2017

	General Fund			Variance
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
REVENUES:				
Ad Valorem Taxes	\$2,214,000	\$2,214,000	\$2,005,163	\$(208,837)
Sales Tax	2,100,000	2,100,000	1,993,516	(106,484)
Other Taxes	223,000	223,000	204,963	(18,037)
Fines & Forfeitures	181,000	181,000	287,671	106,671
Investment Income	8,000	8,000	13,193	5,193
Licenses, Fees, & Rents	927,670	927,670	917,864	(9,806)
Intergovernmental Transfers & Grants	118,300	118,300	84,409	(33,891)
Other Revenues & Receipts	99,750	99,750	252,355	152,605
TOTAL REVENUES	5,871,720	5,871,720	5,759,134	(112,586)
EXPENDITURES:				
Administration & City Council	1,077,650	1,077,650	1,114,905	(37,255)
Business & Support Services	730,492	730,492	725,653	4,839
Economic Development/Tourism	-	-	-	-
Public Health & Safety:				
Fire	2,143,614	2,143,614	1,984,960	158,654
Police	2,300,873	2,300,873	2,270,494	30,379
Municipal Court	169,798	169,798	188,320	(18,522)
Animal Control	145,738	145,738	126,736	19,002
Library	452,680	452,680	769,117	(316,437)
Streets	900,900	900,900	757,464	143,436
Maintenance	93,469	93,469	88,709	4,760
Parks & Recreation	317,293	317,293	269,292	48,001
Inspection Services	174,229	174,229	175,062	(833)
Capital Expenditures	183,625	183,625	964,013	(780,388)
Disaster Recovery	-	-	648,451	(648,451)
Debt Service	-	-	44,933	(44,933)
TOTAL EXPENDITURES	8,690,361	8,690,361	10,128,109	(1,437,748)
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(2,818,641)	(2,818,641)	(4,368,975)	(1,550,334)
OTHER FINANCING SOURCES:				
Transfers from Other Funds	2,635,016	2,635,016	3,263,078	628,062
Transfers to Other Funds	-	-	(19,484)	(19,484)
TOTAL OTHER FINANCING SOURCES	2,635,016	2,635,016	3,243,594	608,578
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES	-	-	(1,125,381)	(1,125,381)
FUND BALANCES, BEGINNING OF YEAR	3,662,227	3,662,227	3,662,227	-
FUND BALANCES, END OF YEAR	\$3,662,227	\$3,662,227	\$2,536,846	\$(1,125,381)

- (A) General Fund Budgetary information includes Fixed Asset Replacement Fund
 (B) LCDC Budgetary information includes LCDC debt service
 (C) General Fund expenditures exceeded appropriations primarily due to Library building professional services and disaster recovery expenditures.
 (D) Debt Service budgeted certain debt service payments as transfers.

The accompanying Independent Auditor's Report should be read with this additional information.

Liberty Community Development Corporation			
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
-	-	-	-
\$1,050,000	\$1,050,000	\$873,299	\$(176,701)
-	-	-	-
8,000	8,000	11,270	3,270
-	-	-	-
-	-	-	-
1,058,000	1,058,000	884,569	(173,431)
-	-	-	-
-	-	-	-
763,712	763,712	43,466	720,246
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
234,288	234,288	267,411	(33,123)
998,000	998,000	310,877	687,123
60,000	60,000	573,692	513,692
-	-	-	-
(60,000)	(60,000)	(128,768)	(68,768)
(60,000)	(60,000)	(128,768)	(68,768)
-	-	444,924	444,924
3,078,171	3,078,171	3,078,171	-
\$3,078,171	\$3,078,171	\$3,523,095	\$444,924

Debt Service			
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
\$1,355,000	\$1,355,000	\$1,441,170	\$86,170
-	-	-	-
-	-	-	-
5,000	5,000	7,510	2,510
-	-	-	-
-	-	-	-
1,360,000	1,360,000	1,448,680	88,680
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
1,063,201	1,063,201	1,291,040	(227,839)
1,063,201	1,063,201	1,291,040	(227,839)
296,799	296,799	157,640	(139,159)
-	-	2,594	2,594
(258,238)	(258,238)	-	258,238
(258,238)	(258,238)	2,594	260,832
38,561	38,561	160,234	121,673
1,983,051	1,983,051	1,983,051	-
\$2,021,612	\$2,021,612	\$2,143,285	\$121,673

CITY OF LIBERTY, TEXAS

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS --
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2017**

	2016	2015	2014
Total Pension Liability			
Service Cost	\$520,691	\$517,416	\$318,408
Interest (on the Total Pension Liability)	935,272	863,571	780,406
Changes of Benefit Terms	-	-	4,030,494
Difference Between Expected and Actual Experience	(76,539)	53,707	325,260
Change of Assumptions	-	530,215	-
Benefit Payments, Including Refunds of Employee Contributions	(519,266)	(375,511)	(295,510)
Net Change in Total Pension Liability	860,158	1,589,398	5,159,058
Total Pension Liability – Beginning	13,855,175	12,265,777	7,106,719
Total Pension Liability – Ending (a)	\$14,715,333	\$13,855,175	\$12,265,777
Plan Fiduciary Net Position			
Contributions – Employer	\$735,499	\$732,389	\$201,943
Contributions – Employee	290,194	304,618	204,251
Net Investment Income	515,312	10,273	371,202
Benefit Payments, Including Refunds of Employee Contributions	(519,266)	(375,511)	(295,510)
Administrative Expense	(5,824)	(6,261)	(3,875)
Other	(314)	(308)	(319)
Net Change in Plan Fiduciary Net Position	1,015,601	665,200	477,692
Plan Fiduciary Net Position – Beginning	7,630,876	6,965,676	6,487,984
Plan Fiduciary Net Position – Ending (b)	\$8,646,477	\$7,630,876	\$6,965,676
Net Pension Liability – Ending (a) – (b)	\$6,068,856	\$6,224,299	\$5,300,101
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	58.76%	55.08%	56.79%
Covered Employee Payroll	\$4,145,627	\$4,351,691	\$4,085,010
Net Pension Liability as a Percentage of Covered Employee Payroll	146.39%	143.03%	129.75%

The accompanying Independent Auditor's Report should be read with this additional information.

CITY OF LIBERTY, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS -
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2017

	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
Actuarially Determined Contribution	\$819,924	\$744,092	\$605,241
Contributions in Relation to the Actuarially Determined Contribution	<u>819,924</u>	<u>744,092</u>	<u>605,241</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>
Covered Employee Payroll	<u>\$4,419,225</u>	<u>\$4,253,975</u>	<u>\$4,424,680</u>
Contributions as a Percentage of Covered Employee Payroll	<u>18.55%</u>	<u>17.49%</u>	<u>13.68%</u>

Notes to Schedule of Contributions

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January thirteen 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	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the Period 2010 – 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes 1) There were no benefit changes during the year.

The accompanying Independent Auditor's Report should be read with this additional information.

SUPPLEMENTAL SECTION

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

	Police Seizure Fund	Police Pre-Seizure Fund	Airport Fund	Hotel-Motel/ Tourism Fund
<u>ASSETS</u>				
Cash & Cash Equivalents	\$7,113	\$133,356	\$19,551	-
Cash - Restricted	-	-	-	-
Investments	-	-	-	-
Due from State	-	-	10,163	-
Interfund Receivable	-	-	-	-
TOTAL ASSETS	7,113	133,356	29,714	-
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$7,113	\$133,356	\$29,714	-
<u>LIABILITIES</u>				
Accounts Payable	-	-	\$9,076	-
Due to State	-	\$133,356	-	-
Interfund Payable	-	-	-	-
TOTAL LIABILITIES	-	133,356	9,076	-
<u>DEFERRED INFLOWS OF RESOURCES</u>	-	-	-	-
<u>FUND BALANCES</u>				
Restricted- Capital Projects	-	-	-	-
Committed Fund Balances	\$7,113	-	20,638	-
TOTAL FUND BALANCES	7,113	-	20,638	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$7,113	\$133,356	\$29,714	-

The accompanying Independent Auditor's Report should be read with this additional information.

Library Memorial Fund	Municipal Library Trust	Capital Projects Fund (CO 2012)	Total Nonmajor Special Revenue Funds
\$50,906	\$143,294	-	\$354,220
-	-	\$5,068	5,068
-	112,606	-	112,606
-	-	-	10,163
-	-	-	-
<u>50,906</u>	<u>255,900</u>	<u>5,068</u>	<u>482,057</u>
-	-	-	-
<u>\$50,906</u>	<u>\$255,900</u>	<u>\$5,068</u>	<u>\$482,057</u>
-	-	-	\$9,076
-	-	-	133,356
-	-	-	-
-	-	-	<u>142,432</u>
-	-	-	-
-	-	\$5,068	5,068
<u>\$50,906</u>	<u>\$255,900</u>	<u>-</u>	<u>334,557</u>
<u>50,906</u>	<u>255,900</u>	<u>5,068</u>	<u>339,625</u>
<u>\$50,906</u>	<u>\$255,900</u>	<u>\$5,068</u>	<u>\$482,057</u>

CITY OF LIBERTY, TEXAS**COMBINING STATEMENT OF REVENUES, EXPENDITURES****AND CHANGES IN FUND BALANCES****NONMAJOR GOVERNMENTAL FUNDS****YEAR ENDED SEPTEMBER 30, 2017**

	Police Seizure Fund	Police Pre-Seizure Fund	Airport Fund	Hotel-Motel/ Tourism Fund
REVENUES:				
Other Taxes	-	-	-	\$37,921
Forfeiture	-	-	-	-
Investment Income	\$45	-	-	-
Rents	-	-	\$71,772	-
Intergovernmental Grants	-	-	730,775	-
Grants and Donations	-	-	-	7,300
Other Revenues & Receipts	-	-	147,252	31,181
TOTAL REVENUES	45	-	949,799	76,402
EXPENDITURES:				
Economic Development / Tourism	-	-	-	118,414
Public Health and Safety:				
Police	3,015	-	-	-
Library	-	-	-	-
Airport	-	-	224,497	-
Capital Expenditure	-	-	719,868	-
TOTAL EXPENDITURES	3,015	-	944,365	118,414
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,970)	-	5,434	(42,012)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	6,288	19,484
Operating Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	6,288	19,484
Net Change in Fund Balance	(2,970)	-	11,722	(22,528)
Fund Balances, Beginning of Year	10,083	-	8,916	22,528
Fund Balances, End of Year	\$7,113	-	\$ 20,638	\$-

The accompanying Independent Auditor's Report should be read with this additional information.

Library Memorial Fund	Municipal Library Trust	Capital Projects Fund (CO 2012)	Total Nonmajor Special Revenue Funds
-	-	-	\$37,921
-	-	-	-
\$27	\$29,131	\$18	29,221
-	-	-	71,772
2,928	-	-	730,775
-	-	-	10,228
-	-	-	178,433
2,955	29,131	18	1,058,350
-	-	-	118,414
-	-	-	3,015
10,574	-	-	10,574
-	-	-	224,497
-	-	-	719,868
10,574	-	-	1,076,368
(7,619)	29,131	18	(18,018)
5,370	-	-	31,142
-	(5,370)	-	(5,370)
5,370	(5,370)	-	25,772
(2,249)	23,761	18	7,754
53,155	232,139	5,050	331,871
\$50,906	\$255,900	\$5,068	\$339,625

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OTHER FINANCIAL AND STATISTICAL INFORMATION

CITY OF LIBERTY, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>
2007-2008	\$2,381,165	\$2,197,462	92%	\$91,040	\$2,288,502
2008-2009	2,606,051	2,467,774	95%	63,458	2,531,232
2009-2010	2,550,854	2,415,771	95%	67,867	2,483,638
2010-2011	2,686,971	2,505,852	93%	92,271	2,598,123
2011-2012	2,786,389	2,647,312	95%	116,076	2,763,388
2012-2013	3,007,120	2,922,853	97%	122,703	3,045,556
2013-2014	3,249,316	3,040,377	94%	110,391	3,150,768
2014-2015	3,352,700	3,065,321	92%	253,511	3,318,832
2015-2016	3,330,057	3,149,898	95%	228,260	3,378,158
2016-2017	3,453,243	3,286,123	95%	92,157	3,378,280

The accompanying Independent Auditor's Report should be read with this additional information.

<u>Total Collections As Percent of Current Levy</u>	<u>Tax Adjustments</u>	<u>Outstanding Delinquent Taxes</u>	<u>Outstanding Delinquent Percent</u>
96.1%	\$(80,484)	\$672,772	28.3%
97.1%	(25,906)	721,683	27.7%
97.4%	(2,414)	786,485	30.8%
96.7%	(41,366)	833,965	31.0%
99.2%	(19,506)	837,460	30.0%
101.3%	(32,539)	836,666	27.8%
97.0%	(11,524)	923,690	28.4%
99.0%	3,332	960,890	28.7%
101.4%	(65,654)	847,136	25.4%
97.8%	(12,881)	909,218	26.3%

CITY OF LIBERTY, TEXAS
GENERAL FUND REVENUES BY SOURCE
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Ad Valorem and Other Taxes</u>	<u>Sales Tax</u>	<u>Electric Fund In Lieu of Taxes</u>	<u>Inter-Governmental Transfers and Grants</u>
2007-2008	\$1,618,734	\$2,139,083	\$467,000	\$1,929,222(a)
2008-2009	1,706,446	2,121,447	467,000	2,279,206(b)
2009-2010	1,627,973	1,756,434	311,333	164,722
2010-2011	1,701,344	2,052,692	(c)	112,083
2011-2012	1,727,048	2,002,343	(c)	193,121
2012-2013	2,026,426	2,056,737	(c)	54,208
2013-2014	2,116,727	2,302,566	(c)	233,216
2014-2015	2,323,762	2,023,822	(c)	66,949
2015-2016	2,371,085	1,909,135	(c)	105,513
2016-2017	2,210,126	1,993,516	(c)	84,409

(a) Includes \$1,829,109 of recovery from FEMA for Hurricane Ike disaster costs in 2008.

(b) Includes \$1,775,501 of recovery from FEMA for Hurricane Ike disaster costs in 2009.

(c) Beginning in 2011, all interfund transfers were recorded as other financing sources.

<u>Fines & Forfeitures</u>	<u>License, Fees and Rents</u>	<u>Other Revenue</u>	<u>Total</u>
\$111,674	\$372,033	\$324,948	\$6,962,694
119,562	361,679	258,154	7,313,494
59,651	557,029	209,843	4,686,985
73,196	654,497	60,202	4,654,014
84,790	710,399	325,475	5,043,176
128,188	769,441	260,639	5,295,639
186,588	793,362	306,148	5,938,607
212,030	938,002	252,182	5,816,747
232,841	989,017	122,493	5,730,084
287,671	917,864	265,548	5,759,134

CITY OF LIBERTY, TEXAS
GENERAL FUND EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Administration</u>	<u>Street</u>	<u>Fire and Emergency Services</u>	<u>Municipal Court</u>	<u>Cultural Center Library</u>
2007-2008	\$745,772	\$860,017	\$1,328,445	\$87,177	\$386,576
2008-2009	876,717	798,955	1,698,984	127,684	372,898
2009-2010	787,919	819,612	1,591,511	113,063	449,802
2010-2011	804,830	661,439	1,368,132	104,603	397,841
2011-2012	878,208	685,418	1,457,042	95,137	418,470
2012-2013	903,017	668,383	1,438,913	143,024	431,771
2013-2014	971,667	663,206	1,601,881	158,924	440,912
2014-2015	1,008,313	732,961	1,979,890	171,142	436,254
2015-2016	1,057,252	647,239	1,993,663	148,170	647,239
2016-2017	1,114,905	757,464	1,984,960	188,320	769,117

- (a) Includes \$1,872,994 of hurricane disaster recovery costs.
- (b) Includes \$1,254,864 of hurricane disaster recovery costs.
- (c) Includes \$83,234 of hurricane disaster recovery costs.
- (d) Includes \$648,451 of hurricane disaster recovery costs.

<u>Parks and Recreation</u>	<u>Maintenance</u>	<u>Police</u>	<u>Other</u>	<u>Totals</u>
\$225,145	\$357,272	\$1,700,790	\$2,393,026(a)	\$8,084,220
221,411	386,255	1,794,747	1,719,877(b)	7,997,528
303,873	261,769	1,822,230	273,556(c)	6,423,335
259,119	69,569	1,580,218	769,329	6,015,080
229,486	100,003	1,718,548	1,360,662	6,942,974
232,114	79,702	1,723,889	1,340,978	6,961,791
272,721	80,105	1,758,414	1,893,209	7,841,039
282,727	92,746	1,899,551	1,465,849	8,069,433
294,029	93,679	2,124,228	1,524,630	8,530,129
269,292	88,709	2,270,494	2,684,848d)	10,128,109

CITY OF LIBERTY, TEXAS
ELECTRIC FUND REVENUES BY SOURCE
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Service Sales (a)</u>	<u>Interest Earned</u>	<u>Other Income</u>	<u>Total Income</u>
2007-2008	\$10,230,518	\$17,997	\$267,087	\$10,515,602
2008-2009	10,383,546	5,166	63,506	10,452,218
2009-2010	10,968,231	10,453	184,122	11,162,806
2010-2011	16,956,294	21,448	2,518	16,980,260
2011-2012	17,679,763	11,602	20,357	17,711,722
2012-2013	16,894,645	9,625	2,151	16,906,421
2013-2014	17,913,089	7,137	8,214	17,928,440
2014-2015	17,348,117	13,276	5,135	17,366,528
2015-2016	15,472,175	39,944	9,201	15,521,320
2016-2017	15,903,554	43,907	-	15,947,461

(a) Net of change in allowance for doubtful accounts.

CITY OF LIBERTY, TEXAS
ELECTRIC FUND EXPENSES
LAST TEN FISCAL YEARS

Operating Expenses

<u>Fiscal Year</u>	<u>Power Purchases</u>	<u>Others</u>	<u>Total Operating</u>	<u>Depreciation</u>	<u>Total Expenses</u>
2007-2008	\$8,420,189(a)	\$940,625	\$9,360,814	\$81,281	\$9,442,095
2008-2009	9,127,166(a)	1,212,199	10,339,365	86,211	10,425,576
2009-2010	9,710,848(a)	1,108,574	10,819,422	114,332	10,933,754
2010-2011(b)	13,853,970(a)	815,192	14,669,162	136,565	14,805,727
2011-2012	15,004,801(a)	911,161	15,915,962	144,964	16,060,926
2012-2013	14,190,481(a)	788,269	14,978,750	131,506	15,110,256
2013-2014	15,838,927(a)	673,499	16,512,426	127,957	16,640,383
2014-2015	14,644,277(a)	891,610	15,535,887	176,238	15,712,125
2015-2016	12,780,405(a)	1,143,796	13,924,201	177,981	14,102,182
2016-2017	13,976,373(a)	857,681	14,834,054	125,331	14,959,385

(a) net of rebate

(b) The City added an industrial customer in 2011.

CITY OF LIBERTY, TEXAS
WATER AND WASTEWATER FUND
REVENUES BY SOURCE AND EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS

Revenues				
<u>Fiscal Year</u>	<u>Water Service (a)</u>	<u>Wastewater Service</u>	<u>Other Income</u>	<u>Total Income</u>
2007-2008	\$1,106,527	\$996,597	\$194,346	\$2,297,470
2008-2009	1,450,431	1,232,737	101,491	2,784,659
2009-2010	1,390,220	1,192,060	56,948	2,639,228
2010-2011	1,608,260	1,217,131	60,644	2,886,035
2011-2012	1,586,210	1,205,708	16,941	2,808,859
2012-2013	1,624,944	1,201,261	15,837	2,842,042
2013-2014	1,628,574	1,212,803	20,791	2,862,168
2014-2015	1,610,083	1,319,268	13,512	2,942,863
2015-2016	1,640,900	1,564,119	14,142	3,219,161
2016-2017	1,727,953	1,644,154	100,114	3,472,221

(a) Net of change in allowance for doubtful accounts.

Expenses

<u>Operating Expenses</u>	<u>Depreciation</u>	<u>Total Expenses</u>
\$1,637,672	\$275,036	\$1,912,708
1,702,213	296,399	1,998,612
1,722,595	315,707	2,038,302
1,271,264	314,826	1,586,090
1,353,264	326,402	1,679,666
1,446,388	362,535	1,808,923
1,416,297	358,746	1,775,043
1,605,232	432,982	2,038,214
1,772,880	411,213	2,184,093
1,982,463	452,059	2,434,522

CITY OF LIBERTY, TEXAS
SOLID WASTE FUND
REVENUES AND EXPENSES
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Operating Expenses</u>
2007-2008	\$1,006,295	\$1,061,637
2008-2009	1,095,685	1,108,617
2009-2010	1,077,723	1,052,082
2010-2011	655,041	439,926
2011-2012	631,769	473,439
2012-2013	656,313	492,041
2013-2014	711,385	541,861
2014-2015	727,637	560,293
2015-2016	738,515	566,548
2016-2017	736,429	560,215

The accompanying Independent Auditor's Report should be read with this additional information.

FEDERAL AWARDS SECTION

SWAIM, BRENTS & ASSOCIATES, P.C.
2804 Jefferson Drive
Liberty, Texas 77575
(936) 336-7205

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

Honorable Mayor and Members of the City Council
City of Liberty, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Liberty, Texas (the City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 26, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

This 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.

Swaim, Brents & Associates, P.C.

Swaim, Brents & Associates, P.C.
Liberty, Texas
February 26, 2018

SWAIM, BRENTS & ASSOCIATES, P.C.
2804 Jefferson Drive
Liberty, Texas 77575
(936) 336-7205

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and Members of the City Council
City of Liberty, Texas

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Liberty, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 26, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Swaim, Brents & Associates, P.C.

Swaim, Brents & Associates, P.C.

Liberty, Texas

February 26, 2018

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

Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 Yes X No

Significant deficiencies identified that are not considered to be material weaknesses?

 Yes X None Reported

Noncompliance material to financial statements noted?

 Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 Yes X No

Significant deficiencies identified that are not considered to be material weaknesses?

 Yes X No

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?

 Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

66.458

Capitalization Grants for Clean Water
State Revolving Funds

66.468

Capitalization Grants for Drinking Water
State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 Yes X No

A. Financial Statement Findings
NONE

B. Federal Award Findings and Questioned Costs
NONE

CITY OF LIBERTY, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None	None	

LIBERTY CITY, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2017

N/A

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

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL FEDERAL EXPENDITURES
<u>U.S. Department of Homeland Security</u>			
Passed through the Texas Department of Public Safety's Division of Emergency Management: <i>Disaster Grants – Public Assistance</i> <i>(Presidentially Declared Disasters)</i>	97.036	PA-06-TX-4269	\$ 64,003
<i>Emergency Management Performance Grants</i>	97.042	17TX-EMPG-0407	29,684
<i>Emergency Management Performance Grants</i>	97.042	16TX-EMPG-0407	8,999
		Subtotal 97.042	38,683
Total U.S. Department of Homeland Security			102,686
<u>U.S. Department of Housing & Urban Development</u>			
Passed through Texas General Land Office: <i>Community Development Block Grant</i>	14.228	7216290	55,190
		Subtotal 14.228	55,190
Total U.S. Department of Housing & Urban Development			55,190
<u>U.S. Environmental Protection Agency</u>			
Passed through Texas Water Development Board: <i>ARRA-Capitalization Grants for Clean Water SRF</i>	66.458		592,937
<i>ARRA-Capitalization Grants For Drinking Water SRF</i>	66.468		382,904
		Subtotal	975,841
Total U.S. Environmental Protection Agency			975,841
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,133,717

See accompanying notes to schedule of expenditures of federal awards.

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

A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City of Liberty, Texas, under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Liberty, Texas, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Liberty, Texas.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City did not allocate indirect costs to federal awards.

C. EXPENDITURES UNDER LOAN PROGRAMS

In April, 2016 the City issued Utility System Revenue Bonds of \$1.8 million. The Utility System Revenue Bonds, Series 2016A (\$900,000) and Series 2016B (\$915,000) were issued to fund improvements to the wastewater and water systems of the City, respectfully. The bonds were issued through the Texas Water Development Board, Clean Water and Drinking Water Revolving funds. During fiscal 2017, the City expended \$382,904 and \$592,937 under these loan programs, respectively. As of September 30, 2017, the amounts remaining unexpended are \$519,097 and \$99,574, respectively.

