

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

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FINANCIAL SECTION

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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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2018 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison and pension plan information on pages 3 through 11 and 48 through 51 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 11, 2019, 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.

Swaim, Brents & Associates, P.C.
Liberty, Texas
February 11, 2019

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, 2018. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

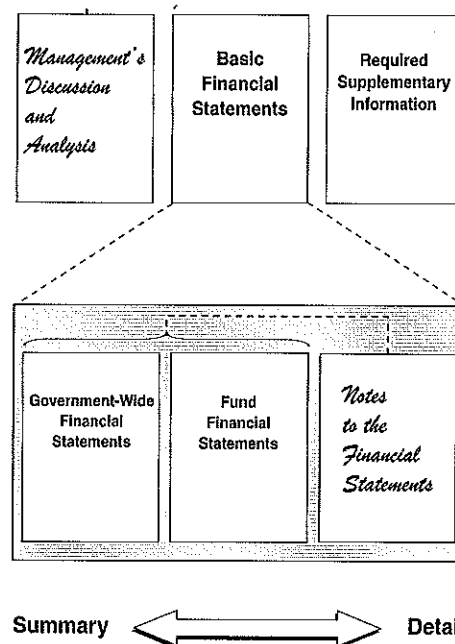
- The City's total combined net position was \$61.3 million at September 30, 2018, compared to \$57.4 million at September 30, 2017.
- Revenues for 2018 were \$31.9 million compared to \$29.3 million in 2017. Charges for electrical services increased \$1.3 million, while water and wastewater revenues increased \$0.4 million. Additionally, property tax revenues increased \$0.2 million (6.0%). Revenues include \$0.5 million in grants from FEMA in 2018 and \$0.5 million in insurance proceeds for Hurricane Harvey recovery.
- During the year ended September 30, 2018, the City's total expenses were \$30.7 million compared to \$29.5 million in 2017. Governmental expenses included \$0.3 million for disaster recovery expenses associated with Hurricane Harvey. The electrical fund expenses increased \$1.4 million for power purchases proportional to the increase in revenue.
- The general fund reported a fund balance of \$2.7 million at September 30, 2018, compared to \$2.5 million in prior year.
- During 2018, the City continued with various construction projects, including sewer system and wastewater treatment plant rehabilitation and electrical improvements.
- As of September 30, 2018, the City has \$3.8 million in restricted cash for debt service and \$8.3 million in restricted cash remaining from the debt issuances to fund capital projects.
- During 2018, the City received \$2.7 million from SRMPA for Cambridge Project net profits, compared to \$4.6 million in 2017. This is presented as a special item in the electric fund.
- During 2018, Liberty Community Development Corporation (LCDC) funded City Park improvements of \$0.4 million and funded levy improvements of \$0.2 million. Additionally, LCDC funded the purchase and startup of a municipal golf course totaling \$0.5 million.

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.

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



- *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities in the government that operates *like businesses*.
- *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 \$61.3 million at September 30, 2018, compared to \$57.4 million at September 30, 2017. (See Table A-1).

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2018	2017	2018	2017	2018	2017	2018-2017
Assets:							
Cash and Investments	\$4,138.7	\$5,532.0	\$14,457.8	\$14,907.7	\$18,596.5	\$20,439.7	-9.0%
Cash and Investments – Restricted	9,905.9	10,275.4	2,866.1	1,669.3	12,772.0	11,944.7	6.5%
Accounts Receivable	3.0	3.1	2,254.2	1,979.7	2,257.2	1,982.8	13.8%
Taxes Receivable, Net	523.0	479.3	-	-	523.0	479.3	9.1%
Due from State/Federal							
Agencies	822.5	494.0	-	-	822.5	494.0	66.5%
Due from Other							
Governments	6.4	6.5	419.6	329.9	426.0	336.4	26.6%
Prepaid Assets	136.1	96.0	-	11.0	136.1	107.0	27.2%
Inventory	124.4	71.4	387.1	326.2	511.5	397.6	28.6%
Internal Balances	580.2	834.2	(580.2)	(834.2)	-	-	-
Capital Assets, Net	29,981.2	28,315.1	26,932.6	26,453.6	56,913.8	54,768.7	3.9%
Total Assets	46,221.4	46,107.0	46,737.2	44,843.2	92,958.6	90,950.2	2.2%
Deferred Outflows of Resources	874.8	1,175.5	155.8	218.3	1,030.6	1,393.8	0.0%
Liabilities:							
Accounts Payable	728.6	848.3	2,018.5	1,904.7	2,747.1	2,753.0	-0.2%
Customer Overpayments	-	-	35.5	44.4	35.5	44.4	-20.0%
Payable from Restricted Assets	-	-	-	31.3	-	31.3	-100.0%
Due to State/Federal							
Agencies	20.2	158.4	41.4	37.7	61.6	196.1	-68.6%
Accrued Interest Payable	41.3	36.5	9.0	9.7	50.3	46.2	8.9%
Service Deposits	-	-	295.4	286.0	295.4	286.0	3.3%
Long-Term Liabilities:							
Due Within One Year	1,480.5	1,429.4	629.4	620.3	2,109.9	2,049.7	2.9%
Due in More Than One Year	20,507.5	22,517.1	6,227.9	6,950.5	26,735.4	29,467.6	-9.3%
Total Liabilities	22,778.1	24,989.7	9,257.1	9,884.6	32,035.2	34,874.3	-8.1%
Deferred Inflows of Resources	598.4	45.5	95.9	8.5	694.3	54.0	1183.4%
Net Position:							
Net Investment in Capital Assets	20,299.6	17,664.2	21,581.3	20,755.6	41,880.9	38,419.8	9.0%
Restricted for Debt Service	2,563.9	2,614.1	1,247.6	789.8	3,811.5	3,403.9	12.0%
Restricted for Building Security and Technology	67.4	63.5	-	-	67.4	63.5	6.1%
Unrestricted	788.8	1,905.5	14,711.1	13,623.0	15,499.9	15,528.5	-0.2%
Total Net Position	\$23,719.7	\$22,247.3	\$37,540.0	\$35,168.4	\$61,259.7	\$57,415.7	6.7%

As of September 30, 2018, the City had invested \$41.9 million in capital assets, net of related debt. Approximately \$3.8 million of the City's net position are restricted for debt service. Additionally, approximately \$7.3 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, 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.

Changes in Net Position

The City's total revenues for 2018 were \$31.9 million compared to \$29.3 million in 2017. 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 (12 percent), sales tax (10 percent), and grants and contributions (2 percent). The total cost of all programs and services was \$30.7 million; 53 percent of these costs are electric services, 8 percent are for water and wastewater services, 3 percent are for library and 3 percent are for streets and general maintenance. Police department expenses and fire department expenses accounted for 9 percent and 8 percent, respectively, of total expenses.

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.

Figure A-3 Source of City Revenues

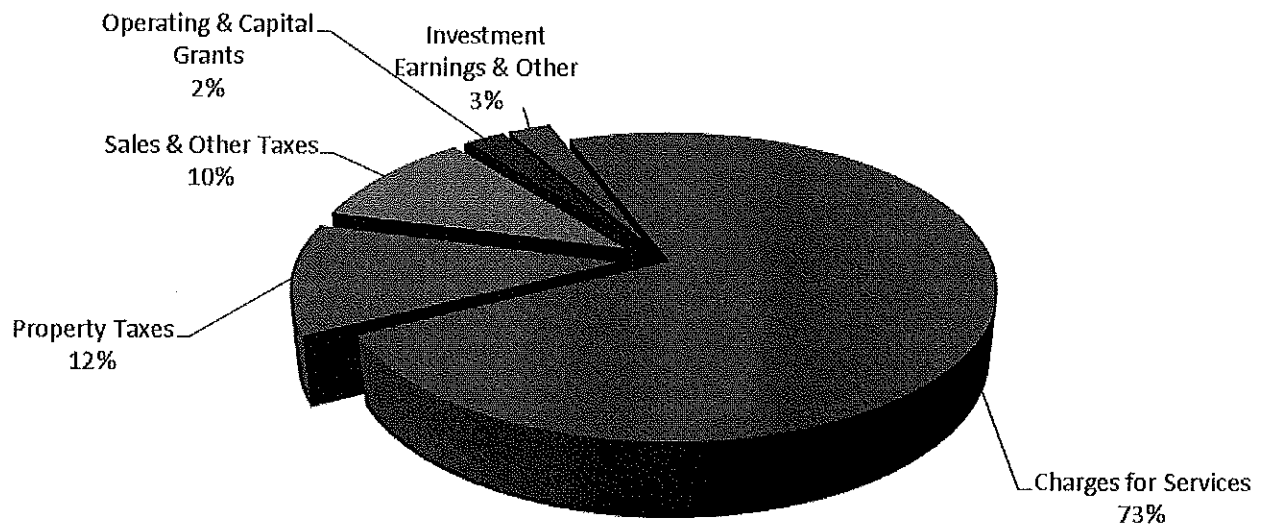


Table A-2
Changes in the City's Net Position
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2018	2017	2018	2017	2018	2017	2018-2017
Program Revenues:							
Charges for Services -							
Governmental Activities	\$1,689.3	\$1,535.1	-	-	\$1,689.3	\$1,535.1	10.0%
Electric	-	-	\$17,201.6	\$15,903.6	17,201.6	15,903.6	8.2%
Water and Wastewater	-	-	3,766.2	3,372.1	3,766.2	3,372.1	11.7%
Garbage	-	-	745.3	734.1	745.3	734.1	1.5%
Operating Grants and Contributions	600.5	118.0	166.9	88.4	767.4	206.4	271.8%
Capital Grants and Contributions	-	720.6	-	-	-	720.6	-100.0%
General Revenues:							
Property Taxes	3,683.7	3,476.7	-	-	3,683.7	3,476.7	6.0%
Sales and Other Taxes	3,260.1	3,109.7	-	-	3,260.1	3,109.7	4.8%
Gain/(Loss) on Sale of Assets	(9.2)	(24.4)	-	-	(9.2)	(24.4)	-61.9%
Investment Earnings	87.1	92.3	175.2	57.9	262.3	150.2	104.4%
Other	492.7	145.0	54.6	-	547.3	145.0	277.4%
Total Revenues	9,804.2	9,173.0	22,109.8	20,156.1	31,914.0	29,329.1	8.9%

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

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2018	2017	2018	2017	2018	2017	2018-2017
Expenses by Functions/ Programs							
Administration	\$1,187.7	\$1,187.2	-	-	\$1,187.7	\$1,187.2	0.0%
Business and Support Services	758.3	781.8	-	-	758.3	781.8	-3.0%
Economic Development	153.1	168.9	-	-	153.1	168.9	-9.4%
Public Health and Fire/ Emergency	2,432.5	2,368.8	-	-	2,432.5	2,368.8	2.7%
Police and Court	2,764.1	2,780.3	-	-	2,764.1	2,780.3	-0.6%
Animal Control	135.8	136.0	-	-	135.8	136.0	-0.1%
Library	1,011.0	925.9	-	-	1,011.0	925.9	9.2%
Streets and General	1,013.7	979.7	-	-	1,013.7	979.7	3.5%
Parks and Recreation	388.4	330.3	-	-	388.4	330.3	17.6%
Inspection Services	229.7	184.8	-	-	229.7	184.8	24.3%
Golf Course	118.9	-	-	-	118.9	-	0.0%
Airport Operations	416.2	345.6	-	-	416.2	345.6	20.4%
Disaster Recovery	331.0	648.5	-	-	331.0	648.5	-49.0%
Interest on Long-Term Bond Issuance Cost	524.7	534.6	-	-	524.7	534.6	-1.9%
Electric	-	136.7	-	-	-	136.7	-100.0%
Water and Wastewater	-	-	\$16,354.4	\$14,959.4	16,354.4	14,959.4	9.3%
Garbage	-	-	2,341.9	2,434.5	2,341.9	2,434.5	-3.8%
	-	-	575.2	560.2	575.2	560.2	2.7%
Total Expenses	<u>11,465.1</u>	<u>11,509.1</u>	<u>19,271.5</u>	<u>17,954.1</u>	<u>30,736.6</u>	<u>29,463.2</u>	4.3%
Change in Net Position Before Items & Transfers	(1,660.9)	(2,336.1)	2,838.3	2,202.0	1,177.4	(134.1)	978.0%
Special Items	-	-	2,666.7	4,566.7	2,666.7	4,566.7	-41.6%
Transfers	<u>3,133.3</u>	<u>3,140.6</u>	<u>(3,133.3)</u>	<u>(3,140.6)</u>	<u>-</u>	<u>-</u>	0.0%
Change in Net Position	<u>1,472.4</u>	<u>804.5</u>	<u>2,371.7</u>	<u>3,628.1</u>	<u>3,844.1</u>	<u>4,432.6</u>	-13.3%
Net Position – Beginning	<u>22,247.3</u>	<u>21,442.8</u>	<u>35,168.3</u>	<u>31,540.2</u>	<u>57,415.6</u>	<u>52,983.0</u>	8.4%
Net Position – Ending	<u>\$23,719.7</u>	<u>\$22,247.3</u>	<u>\$37,540.0</u>	<u>\$35,168.3</u>	<u>\$61,259.7</u>	<u>\$57,415.6</u>	6.7%

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 \$3.7 million in property taxes and \$3.3 million in sales and other taxes.
- The remaining funding came primarily from charges for services (\$1.7 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>2018</u>	<u>2017</u>	<u>% Change 2018-2017</u>	<u>2018</u>	<u>2017</u>	<u>% Change 2018-2017</u>
Administration and City Council	\$1,187.8	\$1,187.2	0.1%	\$1,137.8	\$1,144.4	-0.6%
Business and Support Services	758.3	781.8	-3.0%	758.3	781.8	-3.0%
Economic Development/Tourism	153.1	168.9	-9.4%	116.2	130.4	-10.9%
Public Health and Safety:						
Fire/ Emergency Medical Services	2,432.5	2,368.8	2.7%	1,510.5	1,493.8	1.1%
Police and Municipal Court	2,764.1	2,780.3	-0.6%	2,398.9	2,427.1	-1.2%
Animal Control	135.8	136.0	-0.1%	122.6	130.9	-6.3%
Library	1,011.0	925.9	9.2%	992.3	897.5	10.6%
Streets and General Maintenance	1,013.7	979.7	3.5%	1,013.7	948.8	6.8%
Parks and Recreation	388.4	330.3	17.6%	374.8	316.9	18.3%
Inspection Services	229.7	184.8	24.3%	200.4	148.2	35.2%
Golf Course	118.9	-	100.0%	92.9	-	100.0%
Airport Operations	416.2	345.6	20.4%	94.8	(604.2)	-115.7%
Disaster Recovery	330.9	648.5	-49.0%	(162.5)	648.5	-125.1%
Interest on Long-Term Debt	524.7	534.6	-1.9%	524.7	534.6	-1.9%
Bond Issuance Cost	-	136.7	-100.0%	-	136.7	-100.0%
Total	<u>\$11,465.1</u>	<u>\$11,509.1</u>	<u>-0.4%</u>	<u>\$9,175.4</u>	<u>\$9,135.4</u>	<u>0.4%</u>

Business-type Activities

Revenues of the City's business-type activities increased \$2.0 million from 2017 to \$22.1 million, and expenses increased \$1.3 million to \$19.3 million compared to 2017. The electric fund had higher revenues and expenses due to higher power demand primarily from an industrial customer. The electric fund received \$2.7 million in nonoperating revenue from the Cambridge Project. Additionally, business-type activities transferred out \$3.1 million to governmental activities. Overall, net position increased \$2.4 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$9.3 million, an increase of \$0.2 million from 2017. Expenditures for the governmental funds were higher than prior year amounts by \$1.5 million. The increase in expenditures was primarily due to higher capital expenditures which totaled \$3.0 million in 2018.

General Fund Budgetary Highlights

The City revises its budget as needed to meet the needs of the City. General fund revenues were \$1.1 million (19%) higher than budgeted primarily due to grants and insurance proceeds received for Hurricane Harvey recovery. Expenditures exceeded appropriation by \$1.2 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 \$0.4 million higher than expected. Overall, the general fund ended the year with revenues exceeding expenditures by \$0.2 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the City had invested \$122.8 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 \$4.0 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 2018-2017
	2018	2017	2018	2017	2018	2017	
Land	\$1,500.4	\$1,345.2	\$2.6	\$2.6	\$1,503.0	\$1,347.8	11.5%
Buildings and Improvements	14,188.1	14,117.4	849.5	849.5	15,037.6	14,966.9	0.5%
Construction In Progress	4,669.3	3,310.6	4,692.4	3,679.1	9,361.7	6,989.7	33.9%
Infrastructure	54,370.1	53,826.4	3,568.2	3,580.5	57,938.3	57,406.9	0.9%
Utility Systems	-	-	30,197.3	30,197.3	30,197.3	30,197.3	0.0%
Vehicles	2,226.3	2,121.0	354.5	388.8	2,580.8	2,509.8	2.8%
Furniture and Equipment	4,355.2	3,901.9	1,463.2	1,116.3	5,818.4	5,018.2	15.9%
Assets Held Under Capital Lease	365.0	365.0	-	-	365.0	365.0	0.0%
Totals at Historical Cost	81,674.4	78,987.5	41,127.7	39,814.1	122,802.1	118,801.6	3.4%
Total Accumulated Depreciation	(51,693.2)	(50,672.3)	(14,195.1)	(13,360.5)	(65,888.3)	(64,032.8)	2.9%
Net Capital Assets	\$29,981.2	\$28,315.2	\$26,932.6	\$26,453.6	\$56,913.8	\$54,768.8	3.9%

Long Term Debt

At yearend, the City had \$23.4 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 2018-2017
	2018	2017	2018	2017	2018	2017	
Capital Lease Obligations	\$55.1	\$98.2	-	-	\$55.1	\$98.2	-43.9%
Bonds Payable, 2007 Series	-	-	\$4,495.0	\$4,890.0	4,495.0	4,890.0	-8.1%
Certificates of Obligation, 2016	7,040.0	7,340.0	-	-	7,040.0	7,340.0	-4.1%
Certificates of Obligation, 2010A	3,700.0	3,930.0	-	-	3,700.0	3,930.0	-5.9%
Certificates of Obligation, 2012	1,380.0	1,455.0	-	-	1,380.0	1,455.0	-5.2%
Refunding Bonds, 2012	1,640.0	1,895.0	-	-	1,640.0	1,895.0	-13.5%
Utility System Bonds 2016A	-	-	720.0	810.0	720.0	810.0	-11.1%
Utility System Bonds 2016B	-	-	735.0	825.0	735.0	825.0	-10.9%
LCDC Sales Tax Bonds	2,740.0	2,865.0	-	-	2,740.0	2,865.0	-4.4%
Bond Premium	469.2	506.5	-	-	469.2	506.5	-7.4%
Bond Discount	-	-	(29.1)	(32.8)	(29.1)	(32.8)	-11.3%
LCDC Note Payable	420.0	438.6	-	-	420.0	438.6	-4.2%
Total Long Term Debt	\$17,444.3	\$18,528.3	\$5,920.9	\$6,492.2	\$23,365.2	\$25,020.5	-6.6%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Property taxes for 2019 are expected to increase approximately 5.3% from prior year as a result of increased appraised values, coupled with a reduction in the combined tax rate. Appraised value used for the 2019 budget preparation increased 6.6% over the amounts used in 2018. The combined tax rate for Maintenance and Operations and Interest and Sinking is budgeted to decrease from \$0.6110 per \$100 of assessed value in 2018 to \$0.5851 per \$100 of assessed value in 2019. Overall general fund revenues are expected to increase 1.2% over 2018 levels.
- General operating fund spending in the 2019 budget is expected to be \$8.8 million, a 1.2% increase over budgeted amounts for 2018.

These indicators were taken into account when adopting the general fund budget for 2019. The 2019 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

CITY OF LIBERTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and Investments	\$4,138,680	\$15,468,709	\$19,607,389
Cash and Investments – Restricted	9,905,894	1,855,184	11,761,078
Accounts Receivable, Net	3,036	2,254,208	2,257,244
Taxes Receivable, Net	522,978	-	522,978
Due From State	822,510	-	822,510
Due from Other Governments	6,432	419,626	426,058
Prepays	136,110	-	136,110
Inventory	124,365	387,087	511,452
Internal Balances	580,217	(580,217)	-
Capital Assets, Net	29,981,191	26,932,617	56,913,808
TOTAL ASSETS	46,221,413	46,737,214	92,958,627
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Interest on Refunded Debt	78,175	-	78,175
Deferred Outflows Related to Pensions	796,603	155,847	952,450
TOTAL DEFERRED OUTFLOWS OF RESOURCES	874,778	155,847	1,030,625
<u>LIABILITIES</u>			
Accounts Payable	728,607	2,018,543	2,747,150
Customer Overpayments Payable	-	35,531	35,531
Due to State/Federal Agencies	20,290	41,387	61,677
Accrued Interest Payable	41,256	8,937	50,193
Service Deposits	-	295,410	295,410
Long-term Liabilities:			
Due Within One Year	1,480,456	629,414	2,109,870
Due In More Than One Year	20,507,480	6,227,943	26,735,423
TOTAL LIABILITIES	22,778,089	9,257,165	32,035,254
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows Related to Pension	598,427	95,888	694,315
TOTAL DEFERRED INFLOWS OF RESOURCES	598,427	95,888	694,315
<u>NET POSITION</u>			
Net Investment in Capital Assets	20,299,612	21,581,297	41,880,909
Restricted for Debt Service	2,563,876	1,247,566	3,811,442
Restricted for Building Security and Technology	67,374	-	67,374
Unrestricted	788,813	14,711,145	15,499,958
TOTAL NET POSITION	\$23,719,675	\$37,540,008	\$61,259,683

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, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Government Activities:				
Administration	\$1,187,794	\$50,009	-	-
Business and Support Services	758,260	-	-	-
Economic Development/Tourism	153,090	27,777	\$9,150	-
Public Health and Safety:				
Fire/EMS	2,432,486	863,397	58,534	-
Police	2,628,842	131,290	1,370	-
Municipal Court	135,297	230,544	1,940	-
Animal Control	135,758	2,273	10,894	-
Library	1,011,015	11,268	7,390	-
Streets	912,962	-	-	-
Maintenance	100,680	-	-	-
Parks and Recreation	388,419	13,660	-	-
Inspection Services	229,668	29,308	-	-
Airport Operations	416,229	303,656	17,756	-
Golf Course	118,970	26,069	-	-
Disaster Recovery	330,955	-	493,463	-
Interest on Long-term Debt	524,664	-	-	-
Total Governmental Activities	11,465,089	1,689,251	600,497	-
Business-Type Activities:				
Electric	16,354,538	17,201,644	-	-
Water and Wastewater	2,341,936	3,766,234	166,893	-
Solid Waste	575,154	745,337	-	-
Total Business-Type Activities	19,271,628	21,713,215	166,893	-
Totals	\$30,736,717	\$23,402,466	\$767,390	-

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.

Net (Expenses) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$(1,137,785)	-	\$(1,137,785)
(758,260)	-	(758,260)
(116,163)	-	(116,163)
(1,510,555)	-	(1,510,555)
(2,496,182)	-	(2,496,182)
97,187	-	97,187
(122,591)	-	(122,591)
(992,357)	-	(992,357)
(912,962)	-	(912,962)
(100,680)	-	(100,680)
(374,759)	-	(374,759)
(200,360)	-	(200,360)
(94,817)	-	(94,817)
(92,901)	-	(92,901)
162,508	-	162,508
(524,664)	-	(524,664)
(9,175,341)	-	(9,175,341)
-	\$847,106	847,106
-	1,591,191	1,591,191
-	170,183	170,183
-	2,608,480	2,608,480
(9,175,341)	2,608,480	(6,566,861)
2,208,756	-	2,208,756
1,474,915	-	1,474,915
2,986,102	-	2,986,102
274,148	-	274,148
(9,286)	-	(9,286)
492,685	54,553	547,238
87,085	175,239	262,324
7,514,405	229,792	7,744,197
-	2,666,667	2,666,667
3,133,304	(3,133,304)	-
1,472,368	2,371,635	3,844,003
22,247,307	35,168,373	57,415,680
\$23,719,675	\$37,540,008	\$61,259,683

CITY OF LIBERTY, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	General Fund	Liberty Community Development Corporation	Debt Service Funds	
			City of Liberty	LCDC
<u>ASSETS</u>				
Cash and Investments	\$1,063,386	\$2,574,989	-	-
Cash and Investments – Restricted	67,374	-	\$2,243,093	\$301,883
Accounts Receivable, Net	3,036	-	-	-
Taxes Receivable – Delinquent	425,808	-	557,428	-
Less: Allowance for Uncollectible Taxes	(199,323)	-	(260,935)	-
Due from State/Federal Agencies	668,655	153,855	-	-
Due from Other Governments	6,432	-	-	-
Prepaid Assets	136,110	-	-	-
Inventory	124,365	-	-	-
Interfund Receivable	947,565	1,731	13,259	1,055
TOTAL ASSETS	3,243,408	2,730,575	2,552,845	302,938
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$3,243,408	\$2,730,575	\$2,552,845	\$302,938
<u>LIABILITIES</u>				
Accounts Payable	\$251,210	\$133	-	-
Due to State/Federal Agencies	14,948	-	-	-
Interfund Payable	24,388	1,055	-	-
TOTAL LIABILITIES	290,546	1,188	-	-
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred Taxes Revenue	212,927	-	\$291,907	-
TOTAL DEFERRED INFLOWS OF RESOURCES	212,927	-	291,907	-
<u>FUND BALANCES</u>				
Restricted Fund Balances:				
Debt Service	-	-	2,260,938	\$302,938
Capital Projects	-	-	-	-
Building Security and Technology	67,374	-	-	-
Committed Fund Balance	86,962	2,729,387	-	-
Assigned	662,039	-	-	-
Unassigned	1,923,560	-	-	-
TOTAL FUND BALANCES	2,739,935	2,729,387	2,260,938	302,938
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$3,243,408	\$2,730,575	\$2,552,845	\$302,938

The accompanying notes are an integral part of this statement.

Capital Projects Fund (CO 2016)	Other Governmental Funds	Total Governmental Funds
-	\$500,305	\$4,138,680
\$7,293,544	-	9,905,894
-	-	3,036
-	-	983,236
-	-	(460,258)
-	-	822,510
-	-	6,432
-	-	136,110
-	-	124,365
-	-	963,610
7,293,544	500,305	16,623,615

-	-	-
\$7,293,544	\$500,305	\$16,623,615

\$473,563	\$3,701	\$728,607
-	5,342	20,290
348,526	9,424	383,393
822,089	18,467	1,132,290

-	-	504,834
-	-	504,834

-	-	2,563,876
6,471,455	-	6,471,455
-	-	67,374
-	481,838	3,298,187
-	-	662,039
-	-	1,923,560
6,471,455	481,838	14,986,491

\$7,293,544	\$500,305	\$16,623,615
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CITY OF LIBERTY, TEXAS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2018

TOTAL GOVERNMENTAL FUND BALANCES	\$14,986,491
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.	29,981,191
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	504,834
Payables for debt principal which was not due in the current period are not reported in the funds.	(16,975,123)
Payables for debt interest which are not due in the current period are not reported in the funds.	(41,256)
The premium paid for bond issuance is income in the funds when incurred but are deferred and amortized in the SNP.	(469,228)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(403,010)
Liability for pension obligation is not reported in the funds.	(4,140,575)
Deferred outflows and inflows of resources related to pensions are not reported in the funds.	198,176
Interest on advance refunding of debt is expensed in the funds but deferred and amortized in the SNP.	78,175
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$23,719,675</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, 2018

		Liberty Community Development Corporation	Debt Service Funds	
	<u>General</u>		<u>City of Liberty</u>	<u>LCDC</u>
<u>REVENUES:</u>				
Ad Valorem Taxes	\$2,253,037	-	\$1,386,912	-
Sales Tax	2,007,052	\$1,003,526	-	-
Other Taxes	183,656	-	-	-
Fines & Forfeitures	237,403	-	-	-
Investment Income	9,846	9,880	7,896	\$1,056
Licenses, Fees & Rents	948,612	-	-	-
Intergovernmental Transfers & Grants	555,384	-	-	-
Donations	12,451	-	-	-
Sale of Assets	21,097	-	-	-
Other Revenues & Receipts	114,086	-	-	-
TOTAL REVENUES	6,342,624	1,013,406	1,394,808	1,056
<u>EXPENDITURES:</u>				
Administration	1,160,749	-	-	-
Business & Support Services	740,468	-	-	-
Economic Development / Tourism	-	42,600	-	-
Public Health & Safety:				
Fire/EMS	2,015,486	-	-	-
Police	2,362,355	-	-	-
Municipal Court	128,010	-	-	-
Animal Control	133,207	-	-	-
Library	852,546	-	-	-
Streets	778,490	-	-	-
Maintenance	96,897	-	-	-
Parks & Recreation	280,456	-	-	-
Inspection Services	219,063	-	-	-
Airport Operations	-	-	-	-
Golf Course	-	-	-	-
Capital Expenditures	1,257,053	-	-	-
Disaster Recovery	330,955	-	-	-
Debt Service: Principal	43,087	18,643	860,000	125,000
Interest & Fees	1,846	17,206	417,155	107,888
TOTAL EXPENDITURES	10,400,668	78,449	1,277,155	232,888
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(4,058,044)	934,957	117,653	(231,832)
<u>OTHER FINANCING SOURCES (USES):</u>				
Insurance Recovery	456,516	-	-	-
Operating Transfers In	3,805,985	-	-	231,382
Operating Transfers Out	(1,368)	(1,425,277)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	4,261,133	(1,425,277)	-	231,382
Net Change In Fund Balances	203,089	(490,320)	117,653	(450)
Fund Balances, Beginning of Year	2,536,846	3,219,707	2,143,285	303,388
Fund Balances, End of Year	\$2,739,935	\$2,729,387	\$2,260,938	\$302,938

The accompanying notes are an integral part of this statement.

Capital Projects Fund (CO 2016)	Other Governmental Funds	Total Governmental Funds
-	-	\$3,639,949
-	-	3,010,578
-	\$66,016	249,672
-	67,815	305,218
\$48,965	9,442	87,085
-	71,804	1,020,416
-	17,756	573,140
-	14,906	27,357
-	-	21,097
-	285,698	399,784
48,965	533,437	9,334,296
-	-	1,160,749
-	-	740,468
-	104,311	146,911
-	-	2,015,486
-	3,442	2,365,797
-	-	128,010
-	-	133,207
-	11,094	863,640
-	-	778,490
-	-	96,897
-	-	280,456
-	-	219,063
-	278,940	278,940
-	103,659	103,659
1,358,644	412,360	3,028,057
-	-	330,955
-	-	1,046,730
-	-	544,095
1,358,644	913,806	14,261,610
(1,309,679)	(380,369)	(4,927,314)
-	-	456,516
-	533,418	4,570,785
-	(10,836)	(1,437,481)
-	522,582	3,589,820
(1,309,679)	142,213	(1,337,494)
7,781,134	339,625	16,323,985
\$6,471,455	\$481,838	\$14,986,491

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, 2018

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$(1,337,494)
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOA.	3,028,057
Loss on disposition of capital assets in the SOA is not reported in the funds.	(30,383)
The depreciation of capital assets used in the governmental activities are not reported in the funds.	(1,331,668)
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.	37,258
Certain property taxes are deferred inflows in the funds. This is the change in these amounts this year.	43,722
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.	(4,797)
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.	(20,303)
Repayment of debt principal is an expenditure in the funds but is not an expense in the SOA.	1,046,730
Change in net pension obligation and deferred outflows related to pensions are not reported as expenses in the SOA.	<u>54,276</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$1,472,368</u>

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-Type Activities -- Enterprise Funds			
	Electric	Water and Wastewater	Solid Waste	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS:</u>				
Cash and Investments	\$14,073,394	\$1,084,466	\$310,849	\$15,468,709
Cash and Investments -- Restricted	-	1,855,184	-	1,855,184
Accounts Receivable, Net	1,961,419	234,850	57,939	2,254,208
Inventory	286,574	100,513	-	387,087
Due from Other Governments	-	419,626	-	419,626
Due from Other Funds	-	2,948	8,181	11,129
TOTAL CURRENT ASSETS	16,321,387	3,697,587	376,969	20,395,943
Property, Plant and Equipment	12,414,730	28,713,034	-	41,127,764
Less: Allowance For Depreciation	(4,323,217)	(9,871,930)	-	(14,195,147)
Net Property, Plant and Equipment	8,091,513	18,841,104	-	26,932,617
TOTAL ASSETS	24,412,900	22,538,691	376,969	47,328,560
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred Outflows Related to Pensions	60,393	95,454	-	155,847
TOTAL DEFERRED OUTFLOWS OF RESOURCES	60,393	95,454	-	155,847
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES:</u>				
Accounts Payable	1,937,816	38,412	42,315	2,018,543
Customer Overpayments Payable	35,531	-	-	35,531
Due to State/Federal Agencies	36,175	-	5,212	41,387
Due to Other Funds	523,450	66,165	1,731	591,346
Accrued Interest Payable	-	8,937	-	8,937
Service Deposits	255,675	39,260	475	295,410
Current Maturities of Long-term Liabilities	18,188	611,226	-	629,414
TOTAL CURRENT LIABILITIES	2,806,835	764,000	49,733	3,620,568
Long-term Liabilities, net of Current Portion	364,657	5,863,286	-	6,227,943
TOTAL LIABILITIES	3,171,492	6,627,286	49,733	9,848,511
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred Inflows Related to Pensions	40,667	55,221	-	95,888
TOTAL DEFERRED INFLOWS OF RESOURCES	40,667	55,221	-	95,888
<u>NET POSITION</u>				
Net Investment in Capital Assets	8,091,513	13,489,784	-	21,581,297
Restricted for Debt Service	-	1,247,566	-	1,247,566
Unrestricted (Deficit)	13,169,621	1,214,288	327,236	14,711,145
TOTAL NET POSITION	\$21,261,134	\$15,951,638	\$327,236	\$37,540,008

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, 2018

	Business-Type Activities – Enterprise Funds			
	<u>Electric</u>	<u>Water and Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
OPERATING REVENUES:				
Charges for Services, Net	\$17,201,644	\$3,766,234	\$745,337	\$21,713,215
Investment Income	163,448	10,038	1,753	175,239
Grant Income	-	166,893	-	166,893
Other Income	3,826	50,727	-	54,553
TOTAL OPERATING REVENUES	17,368,918	3,993,892	747,090	22,109,900
OPERATING EXPENSES:				
Power Purchases	15,790,529	-	-	15,790,529
Purchased Power Rebate	(561,550)	-	-	(561,550)
Personnel Costs	370,775	605,864	-	976,639
Distribution Supplies and Contracts	12,080	96,215	575,154	683,449
Maintenance and Repairs	494,652	490,703	-	985,355
Other Charges and Services	24,696	356,801	-	381,497
Interest Expense	-	123,466	-	123,466
TOTAL OPERATING EXPENSES	16,131,182	1,673,049	575,154	18,379,385
NET OPERATING INCOME (LOSS) BEFORE DEPRECIATION	1,237,736	2,320,843	171,936	3,730,515
LESS: Depreciation and Amortization	(223,356)	(668,887)	-	(892,243)
NET OPERATING INCOME (LOSS)	1,014,380	1,651,956	171,936	2,838,272
NONOPERATING REVENUES (EXPENSES):				
SRMPA - Cambridge Distribution	2,666,667	-	-	2,666,667
TOTAL NONOPERATING REVENUES (EXPENSES)	2,666,667	-	-	2,666,667
INCOME BEFORE TRANSFERS	3,681,047	1,651,956	171,936	5,504,939
Operating Transfers In	-	-	-	-
Operating Transfers Out	(2,026,804)	(835,000)	(271,500)	(3,133,304)
CHANGES IN NET POSITION	1,654,243	816,956	(99,564)	2,371,635
NET POSITION, BEGINNING OF YEAR	19,606,891	15,134,682	426,800	35,168,373
NET POSITION, END OF YEAR	\$21,261,134	\$15,951,638	\$327,236	\$37,540,008

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities – Enterprise Funds			
	Electric	Water & Wastewater	Solid Waste	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Cash Received from Customers	\$16,933,835	\$3,763,935	\$745,338	\$21,443,108
Cash Received from Suppliers for Rebate	561,550	-	-	561,550
Cash Paid to Suppliers for Goods and Services	(16,414,064)	(1,078,316)	(597,434)	(18,089,814)
Cash Paid to Employees for Services	(370,775)	(605,864)	-	(976,639)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	710,546	2,079,755	147,904	2,938,205
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>				
Transfers to General Fund	(2,026,804)	(835,000)	(271,500)	(3,133,304)
Grant Income	-	166,893	-	166,893
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(2,026,804)	(668,107)	(271,500)	(2,966,411)
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>				
Interest on Debt Paid	-	(120,540)	-	(120,540)
Principal Payments on Debts	-	(575,000)	-	(575,000)
Acquisition of Capital Assets	(597,328)	(773,914)	-	(1,371,242)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(597,328)	(1,469,454)	-	(2,066,782)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Cambridge Revenue	2,666,667	-	-	2,666,667
Interest on Cash and Investments	163,448	10,038	1,753	175,239
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	2,830,115	10,038	1,753	2,841,906
NET INCREASE (DECREASE) IN CASH	916,529	(47,768)	(121,843)	746,918
CASH & INVESTMENTS, BEGINNING OF YEAR	13,156,865	2,987,418	432,692	16,576,975
<u>CASH & INVESTMENTS, END OF YEAR</u>	\$14,073,394	\$2,939,650	\$310,849	\$17,323,893

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2018

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

Income Before Transfers	\$3,681,047	\$1,651,956	\$171,936	\$5,504,939
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities -				
Depreciation and Amortization	223,356	668,887	-	892,243
Nonoperating Income	(2,666,667)	-	-	(2,666,667)
Investment Income	(163,448)	(10,038)	(1,753)	(175,239)
Grant Income	-	(166,893)	-	(166,893)
Interest Expense	-	123,466	-	123,466
(Increase) Decrease in:				
Accounts Receivable	(272,751)	(1,694)	(24)	(274,469)
Inventory	(36,808)	(24,030)	-	(60,838)
Due from Other Governments	-	(89,749)	-	(89,749)
Prepaid Assets	-	10,978	-	10,978
Increase (Decrease) in:				
Accounts Payable	152,467	(65,019)	(4,865)	82,583
Customer Overpayments	(8,834)	-	-	(8,834)
Due to State/Federal Agencies	3,492	-	173	3,665
Due to Other Funds	(223,483)	(12,945)	(17,588)	(254,016)
Service Deposits	9,950	(605)	25	9,370
Compensated Absences Payable	1,993	(2,868)	-	(875)
Pension Items	10,232	(1,691)	-	8,541
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$710,546	\$2,079,755	\$147,904	\$2,938,205

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, 2018

<u>ASSETS</u>	Employees Pension <u>Trust Fund</u>
Investments, at Fair Value:	
Growth & Income Fund	\$1,763
Money Market Fund	97
Bond Fund	220
Balanced Fund	1,010
Fixed Income Account	50,339
Foreign Equity Portfolio Fund	817
Equity – Income Portfolio Fund	1,895
Growth Portfolio Fund	<u>1,132</u>
TOTAL ASSETS	<u>\$57,273</u>
 <u>NET POSITION</u>	
Net Position of Assets Held In Trust For Pension Benefits	<u>\$57,273</u>
TOTAL NET POSITION	<u>\$57,273</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, 2018

	Employees Pension Trust Fund
<u>ADDITIONS:</u>	
Investment Income (Loss), Including Appreciation or Depreciation in Fair Value of Investments	<u>\$1,833</u>
TOTAL	<u>1,833</u>
<u>DEDUCTIONS:</u>	
Withdrawals	<u>-</u>
TOTAL	<u>-</u>
CHANGE IN NET POSITION	1,833
Net Position – Beginning of Year	<u>55,440</u>
Net Position – End of Year	<u>\$57,273</u>

The accompanying notes are an integral part of this statement.

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

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, 2018

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, 2018

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 and Investments–

As of September 30, 2018, the City had cash and investments restricted as follows:

	<u>Restricted</u>
Cash Restricted for Debt Service – City Governmental	\$2,243,093
Cash Restricted for Debt Service – LCDC Governmental	301,883
Cash Restricted for Debt Service – Proprietary Funds	1,256,504
Cash Restricted for Building Security & Technology	67,374
Cash and Investments from Certificates of Obligation, Series 2016, Restricted for Various Capital Projects	7,293,544
Cash from Bonds Payable, Series 2016 A, Restricted for Water and Wastewater Capital Projects	501,390
Cash from Bonds Payable, Series 2016 B, Restricted for Water and Wastewater Capital Projects	97,290
Total Restricted Cash	<u>\$11,761,078</u>

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

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 \$32,596 at September 30, 2018. 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, 2018

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, 2018

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, 2018, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$19,805,517 and the bank balance was \$20,257,444. The City's cash deposits at September 30, 2018, and during the year ended September 30, 2018, 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, 2018

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, 2018, are shown below:

<u>Investments</u>	
U. S. Treasuries:	
U. S. Treasury Bills	\$4,211,989
U. S. Treasury Bills	4,487,153
Certificates of Deposit	2,497,908
Certificates of Deposit	249,370
Mutual Funds:	
American Funds Capital Income Builder A	12,360
Franklin Income A	9,367
Franklin High Income A	8,334
American Funds Income Fund of America A	14,507
Federated High Income Bond Fund A #317	6,331
Equity Funds:	
American Funds Capital World Growth & Income	12,362
Franklin Templeton Rising Dividends	15,381
Franklin Templeton Founding Allocation A	8,192
American Funds Washington Mutual A	14,666
American Funds New Perspective A	15,030
	<u>\$11,562,950</u>

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

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, 2018.

At September 30, 2018, 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 4
Federated High Income Bond Fund A #317	Morningstar Rating 4
Equity Funds:	
American Funds Capital World Growth & Income	Morningstar Rating 3
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, 2018

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, 2018 was \$0.6100 per \$100 assessed valuation based on the total net assessed value of \$622,007,027. 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 \$460,258 at September 30, 2018 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, 2018, 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	Electric Fund	\$303,906	Short term loan
General Fund	Airport Fund	9,424	Short term loan
General Fund	Capital Projects Fund	348,526	Short term loan
General Fund-Fixed Asset Repl.	Electric Fund	219,544	Short term loan
General Fund-Fixed Asset Repl.	Water & Wastewater	66,165	Short term loan
LCDC	Solid Waste	1,731	Sales Tax Collection
LCDC Debt Service	LCDC	1,055	Short term loan
Debt Service	General Fund	13,259	Tax Collection
Water & Waste Water	General Fund	2,948	Short term loan
Solid Waste Fund	General Fund	8,181	Short term loan
		<u>\$974,739</u>	

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

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

NOTE 6 – TRANSFERS BETWEEN FUNDS

Transfers between funds during 2018 consisted of the following:

<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Amount</u>
General Fund	Electric Fund	\$2,026,804
General Fund	Water & Wastewater Fund	835,000
General Fund	Solid Waste Fund	271,500
General Fund	LCDC	667,601
General Fund	Capital Project Fund (CO 2012)	5,080
	Total	<u>\$3,805,985</u>
Hotel-Motel/Tourism Fund	General Fund	<u>\$1,368</u>
Library Memorial Fund	Municipal Library Trust	<u>\$5,756</u>
LCDC Debt Service Fund	LCDC Fund	<u>\$231,382</u>
Golf Course Fund	LCDC Fund	<u>\$526,294</u>

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

Capital asset activity for the year ended September 30, 2018, 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	\$1,345,220	\$155,220	-	\$1,500,440
Construction in Progress	3,310,599	1,358,644	-	4,669,243
Total Capital Assets Not Being Depreciated	<u>4,655,819</u>	<u>1,513,864</u>	<u>-</u>	<u>6,169,683</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	14,117,405	106,204	\$(35,500)	14,188,109
Infrastructure	53,826,393	543,753	-	54,370,146
Vehicles	2,120,967	208,088	(102,782)	2,226,273
Furniture and Equipment	3,901,917	656,148	(202,881)	4,355,184
Assets Held Under Capital Lease	365,000	-	-	365,000
Total Capital Assets Being Depreciated	<u>74,331,682</u>	<u>1,514,193</u>	<u>(341,163)</u>	<u>75,504,712</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	6,715,585	357,410	(23,667)	7,049,328
Infrastructure	39,771,535	366,452	-	40,137,987
Vehicles	1,154,315	254,414	(92,282)	1,316,447
Furniture and Equipment	2,915,299	329,059	(194,831)	3,049,527
Assets Held Under Capital Lease	115,582	24,333	-	139,915
Total Accumulated Depreciation	<u>50,672,316</u>	<u>1,331,668</u>	<u>(310,780)</u>	<u>51,693,204</u>
Total Capital Assets Being Depreciated, Net	<u>23,659,366</u>	<u>182,525</u>	<u>(30,383)</u>	<u>23,811,508</u>
Governmental Activities Capital Assets, Net	<u>\$28,315,185</u>	<u>\$1,696,389</u>	<u>\$(30,383)</u>	<u>\$29,981,191</u>

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

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation was charged to functional expenditures as follows:

Governmental Activities:

Administration	\$55,783
Business and Support Services	31,142
Economic Development	6,179
Fire /EMS	404,256
Police	270,912
Municipal Court	5,819
Animal Control	5,602
Library	144,358
Streets	133,451
Maintenance	4,293
Parks & Recreation	109,276
Inspection Services	9,649
Airport Operations	137,289
Golf	13,659
Total Depreciation Expense	<u>\$1,331,668</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases & Transfers</u>	<u>Ending Balances</u>
<u>Business-Type Activities:</u>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$2,568	-	-	\$2,568
Construction in Progress	3,679,110	\$1,269,887	\$(256,538)	4,692,459
Total Capital Assets Not Being Depreciated	<u>3,681,678</u>	<u>1,269,887</u>	<u>(256,538)</u>	<u>4,695,027</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	849,482	-	-	849,482
System Improvements	30,197,327	-	-	30,197,327
Vehicles	388,804	-	(34,345)	354,459
Furniture and Equipment	1,116,346	101,354	245,529	1,463,229
Infrastructure	3,580,458	-	(12,218)	3,568,240
Total Capital Assets Being Depreciated	<u>36,132,417</u>	<u>101,354</u>	<u>198,966</u>	<u>36,432,737</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	168,133	30,589	-	198,722
System Improvements	12,077,229	599,879	-	12,677,108
Vehicles	386,318	23,091	(46,563)	362,846
Furniture and Equipment	728,796	238,684	(11,009)	956,471
Total Accumulated Depreciation	<u>13,360,476</u>	<u>892,243</u>	<u>(57,572)</u>	<u>14,195,147</u>
Total Capital Assets Being Depreciated, Net	<u>22,771,941</u>	<u>(790,889)</u>	<u>256,538</u>	<u>22,237,590</u>
Business-type Activities Capital Assets, Net	<u>\$26,453,619</u>	<u>\$478,998</u>	<u>\$-</u>	<u>\$26,932,617</u>

Depreciation was charged to functional expenditures as follows:

Business-type Activities

Water & Wastewater	\$668,887
Electric	223,356
Total Depreciation Expense	<u>\$892,243</u>

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

NOTE 8 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2018 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%	\$3,930,000	-	\$(230,000)	\$3,700,000	\$245,000
Tax & Revenue Certificates Of Obligation, Series 2012 (Maturing 3/1/2032)	2.0-4.0%	1,455,000	-	(75,000)	1,380,000	80,000
General Obligation Refunding Bonds, Series 2012 (Maturing 3/1/24)	2.0-2.5%	1,895,000	-	(255,000)	1,640,000	260,000
LCDC Sales Tax Bonds, Series 2014 (Maturing 3/1/2034)	3.0-4.0%	2,865,000	-	(125,000)	2,740,000	130,000
Certificates of Obligation, Series 2016 (Maturing 3/1/2036)	2.0-3.0%	7,340,000	-	(300,000)	7,040,000	300,000
Bond Premium		506,486	-	(37,258)	469,228	-
Total Bonds		17,991,486	-	(1,022,258)	16,969,228	1,015,000
Capital Lease-Fire Truck		98,226	-	(43,087)	55,139	43,044
LCDC Note Payable	4.0%	438,627	-	(18,643)	419,984	19,402
Other Liabilities:						
Compensated Absences		382,707	\$307,385	(287,082)	403,010	403,010
Net Pension Liability		5,035,486	-	(894,911)	4,140,575	-
Total Governmental Activities		\$23,946,532	\$307,385	\$(2,265,981)	\$21,987,936	\$1,480,456
<u>Business-type Activities:</u>						
Bonds:						
Tax & Revenue Certificates of Obligation, Series 2007 (Maturing 3/1/28)	1.9- 2.55%	\$4,890,000	-	\$(395,000)	\$4,495,000	\$405,000
Utility System Revenue Bonds, Series 2016A (Maturing 3/1/26)	0.0- 0.94%	810,000	-	(90,000)	720,000	90,000
Utility System Revenue Bonds, Series 2016B (Maturing 3/1/26)	0.0- 0.89%	825,000	-	(90,000)	735,000	90,000
Bond Discount		(32,834)	-	3,648	(29,186)	-
		6,492,166	-	(571,352)	5,920,814	585,000
Other Liabilities:						
Compensated Absences		45,288	\$28,096	(28,970)	44,414	44,414
Net Pension Liability		1,033,370	-	(141,241)	892,129	-
Total Business-type Activities		\$7,570,824	\$28,096	\$(741,563)	\$6,857,357	\$629,414

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

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, 2018:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
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	1,010,000	274,630	1,284,630
2024-2028	4,295,000	938,393	5,233,393
2029-2033	3,330,000	326,424	3,656,424
2034-2036	1,380,000	43,890	1,423,890
Total	<u>\$13,760,000</u>	<u>\$2,979,070</u>	<u>\$16,739,070</u>

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.

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, 2018.

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

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, 2018:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
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	150,000	83,275	233,275
2024-2028	825,000	333,782	1,158,782
2029-2033	1,000,000	155,269	1,155,269
2034	225,000	4,781	229,781
Total	<u>\$2,740,000</u>	<u>\$963,509</u>	<u>\$3,703,509</u>

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>
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	22,762	13,086	35,848
2024-2028	128,503	50,739	179,242
2029-2033	156,902	22,340	179,242
2034	29,335	541	29,876
Total	<u>\$419,984</u>	<u>\$147,617</u>	<u>\$567,601</u>

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>
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	620,000	69,255	689,255
2024-2028	2,940,000	160,271	3,100,271
Total	<u>\$5,950,000</u>	<u>\$607,814</u>	<u>\$6,557,814</u>

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

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, 2018.

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, 2018 totaled \$365,000. Future minimum lease payments for the capital lease as of September 30, 2018, are as follows:

<u>Year Ending September 30,</u>	
2019	\$44,893
2020	<u>11,223</u>
Total	56,116
Amount Representing Interest	<u>(977)</u>
Total	<u>\$55,139</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, 2018, were \$447,424.

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, 2018. 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, 2018

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.tmr.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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	41
Inactive employees entitled to but not yet receiving benefits	129
Active employees	<u>94</u>
	<u>264</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 18.79% and 18.74% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$830,396 and were equal to the required contributions.

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

NOTE 9 – RETIREMENT PLANS (CONTINUED)

4. Net Pension Liability –

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Assumptions

	<u>12/31/17</u>
Investment rate of return	6.75%, net of pension plan investment expense, including inflation
Inflation	2.5%
Overall payroll growth	2.4%

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, 2017, 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, 2018

NOTE 9 – RETIREMENT PLANS (CONTINUED)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2016	\$14,715,333	\$8,646,477	\$6,068,856
Changes for the year:			
Service cost	555,605	-	555,605
Interest	991,341	-	991,341
Change in benefit terms	-	-	-
Difference between expected and actual experience	(242,896)	-	(242,896)
Changes in assumptions	-	-	-
Contributions – employer	-	837,384	(837,384)
Contributions – employee	-	311,887	(311,887)
Net investment income	-	1,197,456	(1,197,456)
Benefit payments, including refunds of employee contributions	(613,204)	(613,204)	-
Administrative expense	-	(6,210)	6,210
Other changes	-	(315)	315
Net changes	690,846	1,726,998	(1,036,152)
Balance at 12/31/2017	\$15,406,179	\$10,373,475	\$5,032,704

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

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	\$7,093,194	\$5,032,704	\$3,328,364

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, 2018, the City recognized pension expense of \$773,482. 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	\$10,043	\$(203,124)
Changes in actuarial assumptions	99,142	-
Difference between projected and actual investment earnings	207,521	(491,191)
Contributions subsequent to the measurement date	635,744	-
Total	\$952,450	\$(694,315)

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$635,744 will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. 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:	
2019	\$4,768
2020	(106,971)
2021	(152,640)
2022	(122,766)
Total	\$(377,609)

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

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 \$561,550 during 2018. 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. During 2018, LCDC funded City park improvements of \$0.4 million, funded levy improvements of \$0.2 million and funded the purchase and start up of a municipal golf course of \$0.5 million.

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, 2018

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	\$10,833
Division of Emergency Management - Emergency Management Performance Grant	25,474
Indigent Defense Fee	1,940
Police – LEOSE	1,785
Fire- LEOSE	678
FEMA- Hurricane Harvey	491,491
Texas A&M Forest Service Grants	21,549
Library Grants	1,634
Total General Fund	<u>\$555,384</u>
Proprietary Funds:	
Water and Wastewater Fund – CDBG – sewer system	<u>\$166,893</u>
Total Proprietary Funds	<u>\$166,893</u>
Special Revenue Funds:	
Airport – TX DOT Ramp Grant	<u>\$17,756</u>
Total Special Revenue Funds	<u>\$17,756</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 2018, the City received \$2.7 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, 2018**

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
REVENUES:				
Ad Valorem Taxes	\$2,155,000	\$2,155,000	\$2,253,037	\$98,037
Sales Tax	2,000,000	2,000,000	1,982,576	(17,424)
Other Taxes	223,000	223,000	208,132	(14,868)
Fines & Forfeitures	211,000	211,000	237,403	26,403
Investment Income	11,000	11,000	9,846	(1,154)
Licenses, Fees, & Rents	927,950	927,950	948,612	20,662
Intergovernmental Transfers & Grants	118,500	118,500	555,384	436,884
Other Revenues & Receipts	82,000	82,000	604,150	522,150
TOTAL REVENUES	5,728,450	5,728,450	6,799,140	1,070,690
EXPENDITURES:				
Administration & City Council	1,061,844	1,061,844	1,160,749	(98,905)
Business & Support Services	723,721	723,721	740,468	(16,747)
Economic Development/Tourism	-	-	-	-
Public Health & Safety:				
Fire	2,167,571	2,167,571	2,015,486	152,085
Police	2,466,681	2,466,681	2,362,355	104,326
Municipal Court	170,752	170,752	128,010	42,742
Animal Control	154,055	154,055	133,207	20,848
Library	436,800	436,800	852,546	(415,746)
Streets	952,804	952,804	778,490	174,314
Maintenance	169,221	169,221	96,897	72,324
Parks & Recreation	299,205	299,205	280,456	18,749
Inspection Services	210,216	210,216	219,063	(8,847)
Capital Expenditures	95,000	386,000	1,280,314	(894,314)
Disaster Recovery	-	-	330,955	(330,955)
Debt Service	-	-	44,933	(44,933)
TOTAL EXPENDITURES	8,907,870	9,198,870	10,423,929	(1,225,059)
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(3,179,420)	(3,470,420)	(3,624,789)	(154,369)
OTHER FINANCING SOURCES:				
Transfers from Other Funds	3,179,420	3,470,420	3,829,246	358,826
Transfers to Other Funds	-	-	(1,368)	(1,368)
TOTAL OTHER FINANCING SOURCES	3,179,420	3,470,420	3,827,878	357,458
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES	-	-	203,089	203,089
FUND BALANCES, BEGINNING OF YEAR	2,536,846	2,536,846	2,536,846	-
FUND BALANCES, END OF YEAR	\$2,536,846	\$2,536,846	\$2,739,935	\$203,089

- (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)
-	-	-	-
\$1,000,000	\$1,000,000	\$1,003,526	\$3,526
-	-	-	-
5,000	5,000	10,936	5,936
-	-	-	-
-	-	-	-
1,005,000	1,005,000	1,014,462	9,462
-	-	-	-
-	-	-	-
704,250	987,562	42,600	944,962
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
240,750	240,750	268,737	(27,987)
945,000	1,228,312	311,337	916,975
60,000	(223,312)	703,125	926,437
-	-	231,382	231,382
(60,000)	(60,000)	(1,425,277)	(1,365,277)
(60,000)	(60,000)	(1,193,895)	(1,133,895)
-	(283,312)	(490,770)	(207,458)
3,523,095	3,523,095	3,523,095	-
\$3,523,095	\$3,239,783	\$3,032,325	\$(207,458)

Debt Service			
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
\$1,243,906	\$1,243,906	\$1,386,912	\$143,006
-	-	-	-
-	-	-	-
4,000	4,000	7,896	3,896
-	-	-	-
30,000	30,000	-	(30,000)
1,277,906	1,277,906	1,394,808	116,902
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
806,026	806,026	1,277,155	(471,129)
806,026	806,026	1,277,155	(471,129)
471,880	471,880	117,653	(354,227)
-	-	-	-
(471,880)	(471,880)	-	471,880
(471,880)	(471,880)	-	471,880
-	-	117,653	117,653
2,143,285	2,143,285	2,143,285	-
\$2,143,285	\$2,143,285	\$2,260,938	\$117,653

CITY OF LIBERTY, TEXAS

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS –
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2018**

	2017	2016	2015	2014
Total Pension Liability				
Service Cost	\$555,605	\$520,691	\$517,416	\$318,408
Interest (on the Total Pension Liability)	991,341	935,272	863,571	780,406
Changes of Benefit Terms	-	-	-	4,030,494
Difference Between Expected and Actual Experience	(242,896)	(76,539)	53,707	325,260
Change of Assumptions	-	-	530,215	-
Benefit Payments, Including Refunds of Employee Contributions	(613,204)	(519,266)	(375,511)	(295,510)
Net Change in Total Pension Liability	690,846	860,158	1,589,398	5,159,058
Total Pension Liability – Beginning	14,715,333	13,855,175	12,265,777	7,106,719
Total Pension Liability – Ending (a)	\$15,406,179	\$14,715,333	\$13,855,175	\$12,265,777
Plan Fiduciary Net Position				
Contributions – Employer	\$837,384	\$735,499	\$732,389	\$201,943
Contributions – Employee	311,887	290,194	304,618	204,251
Net Investment Income	1,197,456	515,312	10,273	371,202
Benefit Payments, Including Refunds of Employee Contributions	(613,204)	(519,266)	(375,511)	(295,510)
Administrative Expense	(6,210)	(5,824)	(6,261)	(3,875)
Other	(315)	(314)	(308)	(319)
Net Change in Plan Fiduciary Net Position	1,726,998	1,015,601	665,200	477,692
Plan Fiduciary Net Position – Beginning	8,646,477	7,630,876	6,965,676	6,487,984
Plan Fiduciary Net Position – Ending (b)	\$10,373,475	\$8,646,477	\$7,630,876	\$6,965,676
Net Pension Liability – Ending (a) – (b)	\$5,032,704	\$6,068,856	\$6,224,299	\$5,300,101
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	67.33%	58.76%	55.08%	56.79%
Covered Employee Payroll	\$4,455,530	\$4,145,627	\$4,351,691	\$4,085,010
Net Pension Liability as a Percentage of Covered Employee Payroll	112.95%	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, 2018

	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
Actuarially Determined Contribution	\$830,396	\$819,924	\$744,092	\$605,241
Contributions in Relation to the Actuarially Determined Contribution	<u>830,396</u>	<u>819,924</u>	<u>744,092</u>	<u>605,241</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered Employee Payroll	<u>\$4,426,509</u>	<u>\$4,419,225</u>	<u>\$4,253,975</u>	<u>\$4,424,680</u>
Contributions as a Percentage of Covered Employee Payroll	<u>18.76%</u>	<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, 2018

	Police Seizure Fund	Police Pre-Seizure Fund	Airport Fund	Hotel-Motel/ Tourism Fund
<u>ASSETS</u>				
Cash and Investments	\$71,572	-	\$59,990	-
Cash and Investments - Restricted	-	-	-	-
Due from State	-	-	-	-
Interfund Receivable	-	-	-	-
TOTAL ASSETS	71,572	-	59,990	-
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$71,572	-	\$59,990	-
<u>LIABILITIES</u>				
Accounts Payable	-	-	\$3,701	-
Due to State	-	-	-	-
Interfund Payable	-	-	9,424	-
TOTAL LIABILITIES	-	-	13,125	-
<u>DEFERRED INFLOWS OF RESOURCES</u>	-	-	-	-
<u>FUND BALANCES</u>				
Restricted- Capital Projects	-	-	-	-
Committed Fund Balances	\$71,572	-	46,865	-
TOTAL FUND BALANCES	71,572	-	46,865	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$71,572	-	\$59,990	-

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

Golf Course Fund	Library Memorial Fund	Municipal Library Trust	Capital Projects Fund (CO 2012)	Total Nonmajor Special Revenue Funds
\$57,931	\$50,666	\$260,146	-	\$500,305
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
57,931	50,666	260,146	-	500,305
-	-	-	-	-
\$57,931	\$50,666	\$260,146	-	\$500,305
-	-	-	-	-
\$5,342	-	-	-	\$3,701
-	-	-	-	5,342
-	-	-	-	9,424
5,342	-	-	-	18,467
-	-	-	-	-
-	-	-	-	-
52,589	\$50,666	\$260,146	-	481,838
52,589	50,666	260,146	-	481,838
\$57,931	\$50,666	\$260,146	-	\$500,305

CITY OF LIBERTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2018

	Police Seizure Fund	Police Pre-Seizure Fund	Airport Fund	Hotel-Motel/ Tourism Fund
REVENUES:				
Other Taxes	-	-	-	\$66,016
Forfeiture	\$67,815	-	-	-
Investment Income	86	-	-	-
Rents	-	-	\$71,804	-
Intergovernmental Grants	-	-	17,756	-
Grants and Donations	-	-	-	9,150
Other Revenues & Receipts	-	-	231,852	27,777
TOTAL REVENUES	67,901	-	321,412	102,943
EXPENDITURES:				
Economic Development / Tourism	-	-	-	104,311
Public Health and Safety:				
Police	3,442	-	-	-
Library	-	-	-	-
Airport	-	-	278,940	-
Golf Course	-	-	-	-
Capital Expenditure	-	-	16,245	-
TOTAL EXPENDITURES	3,442	-	295,185	104,311
EXCESS OF REVENUES				
OVER (UNDER) EXPENDITURES	64,459	-	26,227	(1,368)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	-	1,368
Operating Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES				
(USES)	-	-	-	1,368
Net Change in Fund Balance	64,459	-	26,227	-
Fund Balances, Beginning of Year	7,113	-	20,638	-
Fund Balances, End of Year	\$71,572	-	\$46,865	-

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

Golf Course Fund	Library Memorial Fund	Municipal Library Trust	Capital Projects Fund (CO 2012)	Total Nonmajor Special Revenue Funds
-	-	-	-	\$66,016
-	-	-	-	67,815
-	\$72	\$9,272	\$12	9,442
-	-	-	-	71,804
-	-	-	-	17,756
-	5,026	730	-	14,906
\$26,069	-	-	-	285,698
26,069	5,098	10,002	12	533,437
-	-	-	-	104,311
-	-	-	-	3,442
-	11,094	-	-	11,094
-	-	-	-	278,940
103,659	-	-	-	103,659
396,115	-	-	-	412,360
499,774	11,094	-	-	913,806
(473,705)	(5,996)	10,002	12	(380,369)
526,294	5,756	-	-	533,418
-	-	(5,756)	(5,080)	(10,836)
526,294	5,756	(5,756)	(5,080)	522,582
52,589	(240)	4,246	(5,068)	142,213
-	50,906	255,900	5,068	339,625
\$52,589	\$50,666	\$260,146	\$-	\$481,838

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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>
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
2017-2018	3,646,335	3,455,603	94%	100,262	3,555,865

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>
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%
97.5%	(16,453)	983,236	27.0%

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>
2008-2009	\$1,706,446	\$2,121,447	\$467,000	\$2,279,206(a)
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
2017-2018	2,436,693	2,007,052	(c)	555,384(b)

- (a) Includes \$1,775,501 of recovery from FEMA for Hurricane Ike disaster costs in 2009.
(b) Includes \$491,491 of recovery from FEMA for Hurricane Harvey disaster costs in 2017.
(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>
\$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
237,403	948,612	157,480	6,342,624

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>
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
2017-2018	1,160,749	778,490	2,015,486	128,010	852,546

(a) Includes \$1,254,864 of hurricane disaster recovery costs.

(b) Includes \$83,234 of hurricane disaster recovery costs.

(c) Includes \$648,451 of hurricane disaster recovery costs.

(d) Includes \$330,955 of hurricane disaster recovery costs and \$1,257,053 capital expenditures.

<u>Parks and Recreation</u>	<u>Maintenance</u>	<u>Police</u>	<u>Other</u>	<u>Totals</u>
\$221,411	\$386,255	\$1,794,747	\$1,719,877(a)	\$7,997,528
303,873	261,769	1,822,230	273,556(b)	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	2,684,848(c)	10,128,109
280,456	96,897	2,362,355	2,725,679(d)	10,400,668

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>
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
2017-2018	17,201,644	163,448	3,826	17,368,918

(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>
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
2017-2018	15,228,979	902,203	16,131,182	223,356	16,354,538

(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>
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
2017-2018	2,045,035	1,721,199	227,658	3,993,892

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

Expenses		
<u>Operating Expenses</u>	<u>Depreciation</u>	<u>Total Expenses</u>
\$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
1,673,049	668,887	2,341,936

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>
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
2017-2018	747,090	575,154

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, 2018, 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 11, 2019.

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 11, 2019

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, 2018. 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, 2018.

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 11, 2019, 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 11, 2019

CITY OF LIBERTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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

97.036

Disaster Grants – Public Assistance

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, 2018

<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, 2018

N/A

CITY OF LIBERTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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-4332	\$ 491,491
<i>Emergency Management Performance Grants</i>	97.042	17TX-EMPG-0407	16,050
<i>Emergency Management Performance Grants</i>	97.042	16TX-EMPG-0407	9,424
		Subtotal 97.042	25,474
Total U.S. Department of Homeland Security			516,965
<u>U.S. Department of Housing & Urban Development</u>			
Passed through Texas General Land Office: <i>Community Development Block Grant</i>	14.228	7216290	166,893
		Subtotal 14.228	166,893
Total U.S. Department of Housing & Urban Development			166,893
<u>U.S. Environmental Protection Agency</u>			
Passed through Texas Water Development Board: <i>ARRA-Capitalization Grants for Clean Water SRF</i>	66.458		-
<i>ARRA-Capitalization Grants For Drinking Water SRF</i>	66.468		89,316
		Subtotal	89,316
Total U.S. Environmental Protection Agency			89,316
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 773,174

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, 2018

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, 2018. 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 2018, the City expended \$0 and \$89,316 under these loan programs, respectively. As of September 30, 2018, the amounts remaining unexpended are \$96,767 and \$429,752, respectively.