

**CITY OF CELESTE, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2017**

**City of Celeste, Texas
Annual Financial Report
Year Ended December 31, 2017**

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FINANCIAL SECTION

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Independent Auditor's Report

To the City Council
City of Celeste, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Celeste, Texas, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, and each major fund of the City of Celeste, Texas, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule, schedule of changes in net pension liability and related ratios, and schedule of contributions on pages 7 through 13 and pages 44 through 46, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Celeste, Texas' basic financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Respectfully submitted,

Scott, Singleton, Fincher and Company, PC

Scott, Singleton, Fincher and Company, PC
Certified Public Accountants
August 22, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

As management for the City of Celeste, we offer readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2017. This discussion should be read in conjunction with the financial statements and related notes. Comparative data is also presented for the government-wide financial statements.

FINANCIAL HIGHLIGHTS:

- Government-wide net position reported in the Statement of Activities is \$2,701,623. Of this amount \$2,095,088 is invested in capital assets, leaving \$606,535 of unrestricted net position.
- Government-wide net position increased by \$48,275 during 2017
- Each of the City's fund financial statements reported changes in equity as follows:

General Fund - \$54,839 increase

Water & Sewer Fund - \$23,116 decrease

USING THIS ANNUAL REPORT:

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and the appropriations from the State. Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the water and sewer system. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

REPORTING THE CITY AS A WHOLE-GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Statement of Net Position and the Statement of Activities

Government-wide financial statements provide an analysis of the City's overall financial condition and operations. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The Statement of Net Position includes all the City's assets and liabilities while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions and 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current year or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and the changes in them. The City's net position (the difference between assets and liabilities) provides one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activities:

Governmental Activities – Most of the City's services are reported here, including, administration, judicial, public safety, fire protection, sanitation, public works, and parks and recreation services. Property taxes, sales taxes, and franchise taxes finance most of these activities.

Business-type Activities – The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer system operations are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS:

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. The City's administration establishes funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary use different accounting approaches.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules found following each of the governmental fund financial statements.

Proprietary Funds – The Proprietary/Enterprise fund is used to account for operations that are financed in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

Net position serves as one useful indicator of a government's financial position. In the case of the City, the combined net position exceeded liabilities by \$2,701,623 at the close of FY 2017.

City of Celeste, Texas
Comparative Statements of Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and other assets	\$ 688,307	\$ 876,540	\$ 30,881	\$ 98,357	\$ 719,188	\$ 974,897
Capital assets, net	509,294	237,699	1,589,045	1,608,617	2,098,339	1,846,316
Total assets	1,197,601	1,114,239	1,619,926	1,706,974	2,817,527	2,821,213
Deferred outflows of resources:						
Deferred outflows of resources	6,684	9,182	2,730	6,381	9,414	15,563
Total deferred outflows of resources	6,684	9,182	2,730	6,381	9,414	15,563
Liabilities:						
Other liabilities	\$ 65,701	\$ 55,989	\$ 54,768	\$ 103,972	\$ 120,469	\$ 159,961
Long-term debt	-	-	3,251	21,139	3,251	21,139
Total liabilities	65,701	55,989	58,019	125,111	123,720	181,100
Deferred inflows of resources:						
Deferred inflows of resources	1,134	1,373	464	954	1,598	2,327
Total deferred inflows of resources	1,134	1,373	464	954	1,598	2,327
Net Position:						
Net investment in capital assets	509,294	482,061	1,585,794	1,624,943	2,095,088	2,107,004
Unrestricted	628,156	583,998	(21,621)	(37,653)	606,535	546,345
Total net position	\$ 1,137,450	\$ 1,066,059	\$ 1,564,173	\$ 1,587,290	\$ 2,701,623	\$ 2,653,349

City of Celeste, Texas
Comparative Statements of Activities

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program revenues:						
Charges for services	\$ 95,745	\$ 97,379	\$ 268,433	\$ 282,599	\$ 364,178	\$ 379,978
Capital grants/contributions	50,028	281,442	-	199,520	50,028	480,962
General revenues:						
Ad valorem taxes	169,355	135,797			169,355	135,797
Sales taxes	75,777	78,245			75,777	78,245
Franchise taxes and fees	40,768	40,721			40,768	40,721
Other	23,579	19,897	62	51	23,641	19,948
Total revenues	455,252	653,481	268,495	482,170	723,747	1,135,651
Expenses:						
Administration	101,920	88,918			101,920	88,918
Judicial	11,556	13,591			11,556	13,591
Public Safety	79,479	83,568			79,479	83,568
Sanitation	66,252	63,178			66,252	63,178
Public Works	99,909	54,666			99,909	54,666
Parks and Recreation	17,757	15,530			17,757	15,530
Water and Sewer services			298,599	282,310	298,599	282,310
Total Expenses	376,873	319,451	298,599	282,310	675,472	601,761
Excess (deficiency) before transfers	78,379	334,030	(30,104)	199,860	48,275	533,890
Capital contribution	(1,988)	-	1,988	-	-	-
Transfers	(5,000)	(7,250)	5,000	7,250	-	-
Change in Net Position	71,391	326,780	(23,116)	207,110	48,275	533,890
Net position, beginning of year	1,066,059	739,279	1,587,290	1,380,180	2,653,349	2,119,459
Net position, end of year	\$ 1,137,450	\$ 1,066,059	\$ 1,564,174	\$ 1,587,290	\$ 2,701,624	\$ 2,653,349

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS:

The combined net position of the City's activities increased from \$2,653,349 to \$2,701,624 or \$48,275 during 2017. Unrestricted net position or the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$606,536.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS:

As the City completed the year, its governmental fund \$635,099 and proprietary fund \$1,564,174 reported combined fund balance and net position of \$2,199,273, a \$31,723 increase from last year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

There were no changes reported between the original budget and the final budget. Details of the budget are presented in the budgetary comparison schedule presented as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION:

Capital Assets – the City's investment in capital assets reported in governmental activities and business-type activities was \$509,294 and \$1,589,045, respectively. This investment in capital assets includes land, construction in progress, buildings and improvements, equipment and vehicles. The change in the City's net investment in capital assets for the current fiscal year was an increase of \$21,233 and a decrease of \$39,149 in each of the respective activities. Additional information on the City's capital assets can be found in note 5 of the basic financial statements.

Below is a summary of long-term debt outstanding at year-end. Additional information on the City's long-term debt can be found in note 6 of the financial statements.

Long-term Liabilities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Capital lease obligation	\$ -	\$ -	\$ -	\$ 13,161	\$ -	\$ 13,161
Note payable	-	-	3,251	7,978	3,251	7,978
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,251</u>	<u>\$ 21,139</u>	<u>\$ 3,251</u>	<u>\$ 21,139</u>

BUDGETARY HIGHLIGHTS & ECONOMIC FACTORS:

Net property taxable valuation for the City increased from \$20,406,918 in 2016 to \$21,056,909 in 2017. The following is a review of the history of Celeste's assessed value over the past several years:

2008	16,890,329
2009	16,988,456
2010	17,255,651
2011	17,361,630
2012	17,463,495
2013	17,336,871
2014	18,322,300
2015	18,867,895
2016	20,406,918
2017	21,056,909

Sales tax collections decreased in 2017, and the City is actively trying to encourage businesses to come to Celeste, which would increase its sales tax revenue.

Water sales are consistent and provide revenue to maintain and improve the water system as needed along with grants the City receives.

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 show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Secretary at P.O. Box 399 Celeste, Texas 75423 or (903) 568-4512.

BASIC FINANCIAL STATEMENTS

CITY OF CELESTE, TEXAS
STATEMENT OF NET POSITION
December 31, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 509,914	\$ 52,641	\$ 562,555
Property taxes receivable, net of allowance of \$10,553	94,972		94,972
Sanitation fees receivable	9,012		9,012
Judicial fees receivable, net of allowance of \$68,953	3,537		3,537
Franchise taxes and fees receivable	7,747		7,747
Sales taxes receivable	12,414		12,414
Accounts receivable, net		27,940	27,940
Prepaid expenses	711	300	1,011
Internal balances	50,000	(50,000)	-
Capital assets:			
Land	7,600		7,600
Capital assets, net of accumulated depreciation	501,694	1,589,045	2,090,739
Total Assets	1,197,601	1,619,926	2,817,527
Deferred Outflows of Resources			
Deferred outflows - related to pensions	6,684	2,730	9,414
Total Deferred Outflows of Resources	6,684	2,730	9,414
LIABILITIES			
Accounts payable	16,986	5,053	22,039
Accrued salaries and benefits	3,618	2,246	5,864
Due to other governments	3,001		3,001
Accrued interest payable		843	843
Customer deposits payable		29,431	29,431
Long-term liabilities:			
Due within one year:			
Note payable		3,251	3,251
Net pension liability	42,096	17,194	59,290
Total Liabilities	65,701	58,018	123,719
Deferred Inflows of Resources			
Deferred inflows - related to pensions	1,134	464	1,598
Total Deferred Outflows of Resources	1,134	464	1,598
NET POSITION			
Net investment in capital assets	509,294	1,585,794	2,095,088
Unrestricted	628,156	(21,620)	606,536
Total Net Position	\$ 1,137,450	\$ 1,564,174	\$ 2,701,624

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

CITY OF CELESTE, TEXAS
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental activities:							
Administration	\$ 101,920				\$ (101,920)	\$	\$ (101,920)
Judicial	11,556	20,312			8,756		8,756
Public safety	79,479				(79,479)		(79,479)
Sanitation	66,252	75,433			9,181		9,181
Public Works	99,909				(99,909)		(99,909)
Parks and Recreation	17,757			50,028	32,271		32,271
Total governmental activities	376,873	95,745	-	50,028	(231,100)		(231,100)
Business-type activities:							
Water and sewer services	298,599	268,433				(30,166)	(30,166)
Total business-type activities	298,599	268,433	-	-	(30,166)		(30,166)
Total all activities	\$ 675,472	\$ 364,178	\$ -	\$ 50,028	\$ (231,100)	\$ (30,166)	\$ (261,266)
General revenues:							
Ad valorem taxes					169,355		169,355
Sales taxes					75,777		75,777
Franchise taxes and fees					40,768		40,768
Rents					6,000		6,000
Miscellaneous income and contributions					17,579		17,579
Unrestricted investment earnings					-	62	62
Total general revenues					309,479	62	309,541
Capital contribution Transfers					(1,988)	1,988	-
					(5,000)	5,000	-
Total general revenues and transfers					302,491	7,050	309,541
Change in net position					71,391	(23,116)	48,275
Net position, beginning of year					1,066,059	1,587,290	2,653,349
Net position, end of year					\$ 1,137,450	\$ 1,564,174	\$ 2,701,624

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

**CITY OF CELESTE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017**

	General Fund	Capital Projects Fund	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	509,914	\$ -	\$ 509,914
Property taxes receivable, net of allowance of \$10,553	94,972		94,972
Sanitation fees receivable	9,012		9,012
Judicial fees receivable, net of allowance of \$68,953	3,537		3,537
Franchise taxes and fees receivable	7,747		7,747
Sales taxes receivable	12,414		12,414
Prepaid expenses	711		711
Advance to other funds	50,000		50,000
Total Assets	\$ 688,307	\$ -	\$ 688,307
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts payable	16,986		16,986
Accrued salaries and benefits	3,618		3,618
Due to other governments	3,001		3,001
Total Liabilities	23,605	-	23,605
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable revenue - property tax	26,066		26,066
Unavailable revenue - criminal fees	3,537		3,537
Total Deferred Inflows of Resources	29,603	-	29,603
<u>FUND BALANCES</u>			
Nonspendable:			
Prepaid items	711		711
Long-term advance to other funds	50,000		50,000
Unassigned	584,388		584,388
Total Fund Balances	635,099	-	635,099
Total Liabilities, Deferred Inflows of Resources, And Fund Balances	\$ 688,307	\$ -	\$ 688,307
Governmental fund balances as presented above:			635,099
Amounts presented for governmental activities in the statement of net position are different because:			
Capital assets reported in the statement of net position are not financial resources and are not reported in the fund balance sheet.			509,294
Other long-term assets (receivables) are not available to pay current-period expenditures and, therefore, are deferred in the funds. These included deferred property taxes in the amount of \$26,066 and deferred judicial fines of \$3,537.			29,603
Long term liabilities for the net pension liability (\$42,096) and deferred outflows \$6,684 and deferred inflows (\$1,134) related to pensions are not recorded in the funds.			(36,546)
Net Position of Governmental Activities			\$ 1,137,450

CITY OF CELESTE, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2017

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Totals Governmental Funds</u>
REVENUES:			
Ad valorem taxes and related penalties and interest	174,498	\$ -	\$ 174,498
Franchise taxes and fees	40,768		40,768
Sales taxes	75,777		75,777
Sanitation services	75,433		75,433
Judicial fees and fines	18,923		18,923
Rents	6,000		6,000
CDBG Street Grant		50,028	50,028
Miscellaneous	17,579		17,579
Total Revenues	<u>408,978</u>	<u>50,028</u>	<u>459,006</u>
EXPENDITURES:			
Current:			
Administration	92,416		92,416
Judicial	11,484		11,484
Public safety	64,858		64,858
Sanitation	66,252		66,252
Public works	83,753		83,753
Parks and recreation	3,256		3,256
Capital outlay	23,130	54,018	77,148
Total Expenditures	<u>345,149</u>	<u>54,018</u>	<u>399,167</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>63,829</u>	<u>(3,990)</u>	<u>59,839</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in (out)	(8,990)	3,990	(5,000)
Net Other Financing Sources (Uses)	<u>(8,990)</u>	<u>3,990</u>	<u>(5,000)</u>
Net change in fund balance	54,839	-	54,839
Fund balance, beginning of year	<u>580,260</u>	<u>-</u>	<u>580,260</u>
Fund balance, end of year	<u>\$ 635,099</u>	<u>\$ -</u>	<u>\$ 635,099</u>

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

CITY OF CELESTE, TEXAS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended December 31, 2017

Net change in fund balances - total governmental funds	\$ 54,839
Amounts reported for governmental activities in the statement of net position are different because:	
Governmental funds report capital outlays as expenditures, while in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$77,148 was less than depreciation expense of (\$47,719) in the current period.	29,429
Capital assets transferred to the proprietary fund are not recorded in the general fund (\$1,988).	(1,988)
In the statement of activities, the gain or loss on the disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balance by the net book value of the assets disposed.	(208)
Changes in long term amounts for net pension liabilities (\$4,668), the related deferred inflows of resources \$239, and the related deferred outflows of resources (\$2,498) are not recorded in the funds.	(6,927)
Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. This includes the change in unavailable deferred ad valorem taxes of (\$5,143) and deferred judicial fines of \$1,389.	<u>(3,754)</u>
Change in net position of governmental activities	<u>\$ 71,391</u>

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

CITY OF CELESTE, TEXAS
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
December 31, 2017

	Enterprise Fund
	Water & Sewer
	Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	52,641
Accounts receivable, net	27,940
Prepaid expenses	300
Total current assets	80,881
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	1,589,045
Total noncurrent assets	1,589,045
Deferred Outflows of Resources:	
Deferred outflows - related to pensions	2,730
Total Deferred Outflows of Resources	2,730
Total assets and deferred outflows of resources	\$ 1,672,656
LIABILITIES	
Current Liabilities:	
Accounts payable	5,053
Accrued salaries and benefits	2,246
Accrued interest payable	843
Note payable - current portion	3,251
Total current liabilities	11,393
Noncurrent Liabilities:	
Customer deposits payable	29,431
Advance from other funds	50,000
Net pension liability	17,194
Total noncurrent liabilities	96,625
Deferred Inflows of Resources:	
Deferred inflows - related to pensions	464
Total Deferred Inflows of Resources	464
Total liabilities and deferred inflows of resources	108,482
NET POSITION	
Net investment in capital assets	1,585,794
Unrestricted	(21,620)
Total Net Position	\$ 1,564,174

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

CITY OF CELESTE, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended December 31, 2017

	Enterprise Fund
	Water & Sewer
	Activities
OPERATING REVENUES:	
Water sales	159,867
Sewer sales	94,402
Service fees	11,430
Other revenues	2,734
Total Operating Revenues	268,433
OPERATING EXPENSES:	
Salaries and related benefits	51,249
Materials and supplies	21,537
Repairs and maintenance	67,702
Insurance	2,161
Vehicle	12,544
Utilities	21,446
Office	929
Legal and audit	5,975
Lab fees	8,333
Rent	6,000
Permits and licenses	9,974
Other miscellaneous	1,001
Depreciation	85,245
Total Operating Expenses	294,096
Operating Income (Loss)	\$ (25,663)
NONOPERATING REVENUES (EXPENSES):	
Interest income	62
Gain (loss) on disposal of capital assets	(4,175)
Interest and fiscal charges	(328)
Total Nonoperating Revenues (Expenses)	(4,441)
Income (loss) before contributions and transfers	(30,104)
Capital contribution	1,988
Operating transfers in (out)	5,000
Change in net position	(23,116)
Net position, January 1	1,587,290
Net position, December 31	\$ 1,564,174

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

CITY OF CELESTE, TEXAS
Statement of Cash Flows
Proprietary Fund
Year Ended December 31, 2017

	Enterprise Fund
	Water & Sewer
	Activities
Cash flows from operating activities:	
Cash received from customers and users	\$ 271,616
Cash paid to suppliers	(163,950)
Cash paid to employees	(57,762)
Net cash provided (used) by operating activities	49,904
Cash flows from noncapital financing activities:	
Advance from general fund	(30,000)
Operating transfers (to) from other funds	5,000
Net cash provided (used) for noncapital financing activities	(25,000)
Cash flows from capital and related financing activities:	
Capital contributions from grants	34,665
Acquisition and construction of capital assets	(65,060)
Principal payments - capital lease and note payable	(17,888)
Interest paid on capital lease and note payable	(328)
Net cash provided (used) by capital and related financing activities	(48,611)
Cash flows from investing activities:	
Interest on deposits	62
Net cash provided (used) by investing activities	62
Net increase (decrease) in cash and cash equivalents	(23,645)
Cash and cash equivalents, January 1	76,286
Cash and cash equivalents, December 31	\$ 52,641

(Continued)

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

CITY OF CELESTE, TEXAS
Statement of Cash Flows
Proprietary Fund
Year Ended December 31, 2017

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

	2017
Operating income (loss)	\$ (25,663)
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation	85,245
(Increase) decrease in accounts receivable (net)	1,701
(Increase) decrease in deferred outflows - related to pensions	3,651
Increase (decrease) in accounts payable	(6,348)
Increase (decrease) in accrued salaries and benefits	119
Increase (decrease) in customer deposits	1,482
Increase (decrease) in net pension liability	(9,793)
Increase (decrease) in deferred inflows - related to pensions	(490)
	75,567
Total Adjustments	75,567
Net cash provided (used) by operating activities	\$ 49,904

Noncash capital and related financing activities that did not result in cash receipts or payments during the fiscal year:

The water and sewer fund received a contributed capital asset in the amount of \$1,988 from the general fund that was recorded in the water and sewer fund as a capital contribution.

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

City of Celeste, Texas
Notes to Financial Statements
December 31, 2017

1. Introduction and Summary of Significant Accounting Policies

The financial statements of the City of Celeste, Texas, collectively identified as the “City,” have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City’s financial activities for the fiscal year ending December 31, 2017.

(A) Reporting Entity and Related Organizations

The City of Celeste, Texas (The City) is a political subdivision of the State of Texas and a municipal organization organized and existing under the laws of the State of Texas. The City operates under a Mayor-Council form of government and provides the following services as authorized by its charter: General Administration Services, Streets, Water and Sewer, Public Safety, and Sanitation services.

The City Council has the authority to make decisions, appoint administrators and managers, significantly influence operations; and has the primary accountability for fiscal matters. The City is not included in any other governmental “reporting entity” as defined in Section 2100, codification of Governmental Accounting and Financial Reporting Standards.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GASB Statements No. 14 and 39. These statements define the reporting entity as the primary government and those component units for which the primary government is financially accountable. In addition, component units may be included in the reporting entity based on the nature and significance of the relationship with the primary government, or based on being closely related or financially integrated with the primary government. Based on these criteria the City does not have any component units at December 31, 2017.

1. Introduction and Summary of Significant Accounting Policies – continued

(B) Government-Wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and enterprise funds are reported in separate columns.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Proprietary fund financial statements record revenues when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

1. Introduction and Summary of Significant Accounting Policies – continued

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond and capital lease principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes, grant revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for the proprietary fund are charges to customers for water and sewer sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

(D) Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

General Fund – reports as the primary operating fund of the City. This fund is used to account for all financial resources not reported in other funds.

Capital Projects Fund – accounts for the TDA Texas Community Development Block Grant street grant activity. Fund resources are provided by the capital grant proceeds and local required match.

Proprietary Funds

The City reports the following major enterprise fund:

Water and Sewer Fund – accounts for the operating activities of the City's water and sewer utilities services.

1. Introduction and Summary of Significant Accounting Policies – continued

(E) Assets, Liabilities, Deferred Inflows/Outflows or Resources and Net Position or Equity

Cash and Investments

Outstanding cash and cash equivalents at December 31, 2017, consists principally of interest bearing bank accounts. Unrestricted and restricted cash investments purchased by the City within three months of maturity are considered to be cash equivalents.

Investments, when applicable are stated at fair value within the fair value hierarchy established by generally accepted accounting principles.

Inventories and Prepaids

Inventories consisting of expendable supplies held for consumption in governmental funds are reported using the expenditure method. Under this method, amounts paid for these items are reported as expenditures when purchased. Inventories, when material, are recorded at cost stated on a first-in, first-out basis in the government-wide financial statements.

Prepaids record payments to vendors that benefit future reporting periods and are reported on the consumption basis at cost. Prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, or if historical cost is not available, they are stated at estimated historical cost. These assets are comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$1,000 or more as purchase and construction outlays occur and \$5,000 for road upgrades. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	30
Infrastructure	15-20
Leasehold improvements	5
Vehicles	5
Furniture, machinery, and equipment	5-10

The City has not capitalized any interest costs in the carrying value of capital assets.

1. Introduction and Summary of Significant Accounting Policies – continued

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position will sometimes report 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 and so will not be recognized as an outflows of resources at year-end.

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

Long-term Debt and Bond Discounts/Premiums

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bond using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

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.

Fund Equity

The City implemented GASB Statement 54 standards for the classification of fund balances in the governmental funds. The fund balances of governmental funds are defined as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form, such as inventory or prepaid items or because they are legally or contractually required to be maintained intact.

1. Introduction and Summary of Significant Accounting Policies – continued

Restricted – amounts that can be spent only for specific purposes because of constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through a formal resolution of the City Council.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes that have been established by the City Council.

Unassigned – all other spendable amounts in the general fund.

The City Council delegates the responsibility to assign funds to the Mayor, City Secretary, or other designee as determined by the Council.

When expenditures are incurred for which both restricted and unrestricted fund balance is available the City considers restricted funds to have been spent first. Similarly, committed funds are considered to have been spent first when there is a choice for the use of less restricted funds, then assigned and then unassigned funds.

Compensated Absences

Employees of the City are entitled to paid vacation, and paid sick leave, depending on length of service. The City's policy is to recognize the cost of compensated time off when actually paid to the employee. All employees must use their vacation time by the end of the fiscal year otherwise, it is forfeited. Accordingly, no liability for compensated absences is recorded in the financial statements.

(F) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a participant in the Texas Municipal League (TML) Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located with Texas. The agreement provides that the trust established by TML will be self-sustaining through member premiums. The City pays annual premiums to TML for worker's compensation, general and auto liability, property damage, employee dishonesty, public official's liability, and law enforcement professional liability coverages. The City does not anticipate any material additional insurance cost assessments as a result of participation in this risk management pool. There were no reductions in insurance coverage from the prior year. Settlements have not exceeded insurance coverage during any of the past three fiscal years.

1. Introduction and Summary of Significant Accounting Policies – continued

(G) Estimates

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

2. Stewardship, Compliance, and Accountability

Budgetary Information

The City Mayor and the City Secretary submit an annual budget to the City Council in accordance with the laws of the State of Texas. The budget is presented to the City Council for review, budget workshops are held with the various City department officials, and public hearings are held to address priorities and the allocation of resources. Prior to the beginning of the fiscal year, the City Council adopts the annual fiscal year budgets for all City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's approved budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personnel services and related fringe benefits, supplies, other services and charges, capital outlay, transfers, and debt service. Expenditures may not exceed appropriations at the department level. Within this control level, management may transfer appropriations between line items. Budget revisions and line item transfers are subject to final review by the City Council.

The budget for the operating funds are prepared on the cash and expenditure basis. Revenues are budgeted in the year receipt is expected; and expenditures, which do not include encumbrances, are budgeted in the year that the liability is to be incurred. The General Fund budget and actual required supplementary information is presented on this basis. Unexpended appropriations for annually budgeted funds lapse at fiscal year-end.

3. Deposits and Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party.

Deposits of the City of Celeste, Texas are fully insured or collateralized with securities held by the City, its agent, or by pledging financial institution's trust department or agent in the name of the City.

The City of Celeste, Texas has not formally adopted deposit and investment policies that limit the government's allowable deposits or investments and address the specific types of risk to which the government is exposed.

3. Deposits and Investments – continued

Investments

As of December 31, 2017, the City had no investments.

Investments Policies

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. City investing is performed in accordance with state statutes.

State statutes generally permit the City to invest in certificates of deposit, fully collateralized repurchase agreements, public funds investment pools, obligations of the United States of America or its agencies, direct obligations of the State of Texas or its agencies, prime domestic bankers acceptances, commercial paper, DEC registered no-load money market mutual funds, other obligations which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, and obligations of states, agencies, countries, cities and other political subdivisions having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than “A” or its equivalent. During the year ended December 31, 2017, the City did not own any types of securities other than those permitted by statute.

4. Receivables, Uncollectible Accounts, and Deferred Inflows of Resources

Enterprise Receivables, Uncollectible Accounts and Deferred Inflows of Resources

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The Enterprise Fund reports accounts receivable net of an allowance for uncollectible accounts and revenues net of uncollectible amounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days. Following is the detail of the Enterprise Fund receivables and the related allowance for uncollectible accounts:

Utility accounts receivable	\$ 33,985
Less: allowance for uncollectible accounts	<u>(6,045)</u>
Net accounts receivable	<u>\$ 27,940</u>

Property Taxes Receivable, Deferred Inflows of Resources and Property Tax Calendar

The City’s property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real property located with the City. Appraised values are established by the Hunt County Appraisal District at 100% of market value. As of January 1, 2017, all real property was assessed at a net taxable value of \$21,056,909.

4. Receivables, Uncollectible Accounts, and Deferred Inflows of Resources – continued

The property tax rate for the year ended December 31, 2017 was .711670 per \$100 of the assessed valuation on taxable property. Following is a summary of the overall tax rate as levied by fund type:

Maintenance and operation-General Fund	<u>.711670</u>
Total tax rate	.711670

The property tax levy for the year ending December 31, 2017 was \$138,438.

In the governmental fund financial statements, property taxes are recorded as receivables in the appropriate fund on the tax levy date with appropriate allowances for estimated uncollectible amounts. At fiscal year-end, property tax receivables represent delinquent taxes. If delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows of resources.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City with appropriate allowances for estimated uncollectible amounts regardless of when cash is received. Over time substantially all property taxes are collected.

The City's full year property tax calendar is as follows:

October 1-Full year tax levy assessed for the current fiscal year taxes are due and payable.

January 1-Tax lien is attached to property to secure the payment of taxes, and penalty and interest as applicable.

February 1-Penalty and interest charges begin to accrue on unpaid past due taxes.

July 1-Taxes become delinquent and are subject to attorney fees incurred for collection.

Allowance for Uncollectible Taxes

The City records an allowance for uncollectible property taxes in order to estimate the amount of taxes that will ultimately prove to be uncollectible. Management has determined that an allowance in the amount of ten percent (10%) of the total property taxes receivable in the general fund and government-wide financial statements should be adequate to provide for uncollectible property taxes. No provisions are made for uncollectible sales tax receivables or franchise tax receivables as management estimates that these amounts will be fully collectible.

Fines and Court Costs Receivables and Related Allowances

In the governmental fund financial statements, the City records fines and court costs receivable net of amounts estimated to be uncollectible and net of any amounts that would be due to other governmental entities as a result of collection. If fines and court costs are not paid within 60 days of years-end, they are recorded as deferred inflows of resources.

In the government-wide financial statements, the City records fines and court costs receivable net of amounts estimated to be uncollectible and net of any amounts that would be due to other governmental entities as a result of collection. Management has determined the estimate of uncollectible fines and court costs through an analysis of actual amounts collected subsequent to year end. Amounts due to other governmental entities has been determined based on distribution requirements of the State of Texas.

5. Capital Assets

The following is a summary of changes in capital assets for the year:

	Balance 12/31/2016	Additions	Retirements	Balance 12/31/2017
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 7,600	\$ -	\$ -	\$ 7,600
Construction in progress	244,362	-	244,362	-
Total capital assets, not being depreciated	<u>251,962</u>	<u>-</u>	<u>-</u>	<u>7,600</u>
Other capital assets:				
Buildings and improvements	30,448	18,130	-	48,578
Infrastructure	566,974	298,380	-	865,354
Equipment	121,304	5,000	2,145	124,159
Vehicles	85,514	-	4,850	80,664
Total other capital assets	<u>804,240</u>	<u>321,510</u>	<u>6,995</u>	<u>1,118,755</u>
Less: accumulated depreciation for:				
Building/Improvements	(17,106)	(1,561)	-	(18,667)
Infrastructure	(431,474)	(24,880)	-	(456,354)
Equipment	(72,794)	(13,169)	1,936	(84,027)
Vehicles	(52,767)	(8,109)	2,863	(58,013)
Total accumulated depreciation	<u>(574,141)</u>	<u>(47,719)</u>	<u>4,799</u>	<u>(617,061)</u>
Other capital assets, net	<u>230,099</u>	<u>(47,719)</u>	<u>(2,196)</u>	<u>501,694</u>
Governmental activities capital assets, net	<u>\$ 482,061</u>	<u>\$ 273,791</u>	<u>\$ (2,196.00)</u>	<u>\$ 509,294</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	37,465	-	37,465	-
Total capital assets, not being depreciated	<u>37,465</u>	<u>-</u>	<u>37,465</u>	<u>-</u>
Other capital assets:				
Buildings and improvements	8,898	-	-	8,898
Infrastructure	2,726,063	47,340	-	2,773,403
Furniture and equipment	120,043	20,521	14,736	125,828
Vehicles	7,325	2,650	-	9,975
Total other capital assets	<u>2,862,329</u>	<u>70,511</u>	<u>14,736</u>	<u>2,918,104</u>
Less: accumulated depreciation for:				
Buildings and improvements	(1,059)	(597)	-	(1,656)
Infrastructure	(1,168,166)	(73,048)	-	(1,241,214)
Furniture and equipment	(81,555)	(9,897)	10,561	(80,891)
Vehicles	(2,932)	(2,367)	-	(5,299)
Total accumulated depreciation	<u>(1,253,712)</u>	<u>(85,909)</u>	<u>10,561</u>	<u>(1,329,060)</u>
Other capital assets, net	<u>1,608,617</u>	<u>(85,909)</u>	<u>(4,175)</u>	<u>1,589,044</u>
Business-type activities capital assets, net	<u>\$ 1,646,082</u>	<u>\$ (15,398)</u>	<u>41,640</u>	<u>\$ 1,589,044</u>
Government-wide capital assets, net	<u>\$ 2,128,143</u>	<u>\$ 258,393</u>	<u>39,444</u>	<u>\$ 2,098,338</u>

5. Capital Assets – continued

Depreciation expense for governmental activities and business-type activities was charged to functions as follows:

Administration	\$ 2,577
Judicial	72
Public Safety	14,621
Public Works	15,948
Parks and Recreation	14,501
Water and Sewer	<u>85,245</u>
Total	<u>\$132,964</u>

6. Long-term Debt

Long-term Debt Supporting Business-type Activities

Debt issued to support business-type activities is a note payable which is primarily paid from the proprietary fund detailed as follows:

Note payable to First Bank of Celeste dated September 10, 2015; due in monthly payments of \$412 through August 10, 2018; interest rate 3.75% secured by equipment purchased

	<u>3,251</u>
\$	<u>3,251</u>

Interest expense for business-type activities and the proprietary (water and sewer) fund was \$328 for the year.

6. Long-term Debt – continued

The following is a summary of changes in debt for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities:					
Note payable	\$ 7,978	-	4,727	3,251	3,251
Capital Lease obligation	13,161	-	13,161	-	-
Total Business-type activities debt	<u>\$ 21,139</u>	<u>\$ -</u>	<u>\$ 17,888</u>	<u>\$ 3,251</u>	<u>\$ 3,251</u>
Government-wide debt	<u>\$ 21,139</u>	<u>\$ -</u>	<u>\$ 17,888</u>	<u>\$ 3,251</u>	<u>\$ 3,251</u>

Capital lease agreements represent general obligations of the City, and are secured by the equipment acquired by the capital lease proceeds. Current requirements for principal and interest of capital lease obligations are accounted for in the appropriate fund for which the liability was incurred.

Debt Service Requirements to Maturity

The annual debt service requirements to maturity for capital lease obligations are as follows at year-end:

Year Ending December 31,	<u>Business-type Activities</u>			
	Note Payable		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 3,251	\$ 831	\$ 3,251	\$ 831
2019	-	-	-	-
2020	-	-	-	-
2021	-	-	-	-
2022	-	-	-	-
Totals	<u>\$ 3,251</u>	<u>\$ 831</u>	<u>\$ 3,251</u>	<u>\$ 831</u>

7. Commitments and Contingencies

The City participates in various state and federal grant programs and contracts which are subject to financial and compliance audits by the grantors or their representatives. Audits of these programs for the year ended December 31, 2017 have not been conducted. Accordingly, the City's compliance with applicable grant and contract requirements will be established at some future date. The City expects that costs disallowed by these various awarding agencies, if any, would be minimal.

The City has entered into a contract for garbage collection services with Sanitation Solutions. During fiscal year 2017, the City spent \$66,252 on garbage collection services.

8. Economic Dependence

City operations are funded by taxes and revenues provided by the residents of the City of Celeste, Texas. Accordingly, the City is economically dependent on the property values and local economy of City of Celeste, Texas and the surrounding area.

9. Defined Benefit Pension Plan

Plan Description

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

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's 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.

9. Defined Benefit Pension Plan – continued

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:

Employee deposit rate	5%
Matching ratio (city to employee)	1 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20
Updated service credit	0%
Annuity increase (to retirees)	0% of CPI

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>3</u>
	11

Contributions

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

Employees for the City of Celeste, Texas were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Celeste, Texas were 9.03% and 7.44% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended December 31, 2017, were \$7,812, and were equal to the required contributions.

Net Pension Liability

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

9. Defined Benefit Pension Plan – continued

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 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 adding expected inflation. In determining their best estimate of 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).

9. Defined Benefit Pension Plan – continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the table on the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	<u>100.00%</u>	

Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2015	\$ 100,663	\$ 36,249	\$ 64,414
Changes for the year:			
Service cost	8,703		8,703
Interest	6,781		6,781
Change of benefit terms	-		-
Difference between expected and actual experience	(1,615)		(1,615)
Changes of assumptions	-		-
Contributions - employer		10,664	(10,664)
Contributions - employee		5,905	(5,905)
Net investment income		2,453	(2,453)
Benefit payments, including refunds of employee contributions	(9,118)	(9,118)	-
Administrative expense		(28)	28
Other changes		(1)	1
Net changes	\$ 4,751	\$ 9,875	\$ (5,124)
Balance at 12/31/2016	\$ 105,414	\$ 46,124	\$ 59,290

9. Defined Benefit Pension Plan – 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	\$ 72,626	\$ 59,290	\$ 48,238

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.

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

For the year ended December 31, 2017, the city recognized pension expense of \$7,964.

At December 31, 2017, 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	\$ 80	\$ 1,593
Changes in actuarial assumptions	215	
Difference between projected and actual investment earnings	1,307	5
Contributions subsequent to the measurement date	7,812	
Total	<u>\$ 9,414</u>	<u>\$ 1,598</u>

\$7,812 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:	
2017	\$ (356)
2018	(21)
2019	383
2020	(2)
2021	-
Thereafter	-
Total	<u>\$ 4</u>

10. Post-Employment Benefits

The City participates in the cost sharing multiple employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12 month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees’ entire careers. The City’s contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$205, \$142, and \$151, respectively, which equaled the required contributions each year.

11. Balances and Transfers/Payments within the Reporting Entity

Receivables and Payables

Generally, outstanding balances between funds reported as “due to/from other funds” in the governmental fund financial statements include outstanding charges by one fund to another for services of goods, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the fiscal year are described as “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

The following is a summary of advances to/from other funds that are not expected to be repaid within one year:

	Advance to other funds	Advance from other funds
	<u> </u>	<u> </u>
General Fund	\$ 50,000	\$ -
Water and Sewer Fund		50,000
Total	<u>\$ 50,000</u>	<u>\$ 50,000</u>

The amount of \$50,000 represents an advance to the water and sewer fund for repairs and maintenance to the water towers.

11. Balances and Transfers/Payments within the Reporting Entity – continued

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers reported within governmental activities. The following schedule reports transfers and payments within the reporting entity:

	Transfers In	Transfers Out	Net Transfers
General Fund	\$ -	\$ 8,990	\$ (8,990)
Water and Sewer Fund	5,000	-	5,000
Capital Projects Fund	3,990	-	3,990
Total	<u>\$ 8,990</u>	<u>\$ 8,990</u>	<u>\$ -</u>

Transfers represent amounts made to fund capital grant activities and related match of the City during the fiscal year.

The general fund made a capital asset contribution to the proprietary fund with a net book value of \$1,988 during the fiscal year.

12. Inter-local Agreements

The City has entered into Inter-local Agreements with Caddo Mills Police Department, Wolfe City Police Department, and Hall County as part of the City's new Copsync equipment. This equipment allows shared motorist information between the counties to assist in enforcing traffic laws and issuing traffic fines. These inter-local agreements allow the City's police department to interoperate with other cities' jurisdictions with data and real time information for law and traffic enforcement.

13. Litigation

From time to time, the City is involved in litigation arising in the ordinary course of business. It is management's belief that any liability resulting from such litigation would not be material in relation to the City's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CELESTE, TEXAS
Budgetary Comparison Schedule
General Fund
Year Ended December 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES:				
Ad valorem taxes and related penalties and interest	\$ 122,500	\$ 122,500	\$ 174,498	\$ 51,998
Franchise taxes and fees	38,000	38,000	40,768	2,768
Sales taxes	74,000	74,000	75,777	1,777
Sanitation services	70,000	70,000	75,433	5,433
Judicial fees and fines	65,000	65,000	18,923	(46,077)
Rents	6,000	6,000	6,000	-
Miscellaneous	4,748	4,748	17,579	12,831
Total Revenues	<u>380,248</u>	<u>380,248</u>	<u>408,978</u>	<u>28,730</u>
EXPENDITURES:				
Current:				
Administration	103,820	103,820	92,416	11,404
Judicial	31,000	31,000	11,484	19,516
Public safety	109,300	109,300	64,858	44,442
Fire protection	2,400	2,400	-	2,400
Sanitation	68,000	68,000	66,252	1,748
Public works	65,728	65,728	83,753	(18,025)
Parks and recreation	-	-	3,256	(3,256)
Capital outlay	-	-	23,130	(23,130)
Total Expenditures	<u>380,248</u>	<u>380,248</u>	<u>345,149</u>	<u>35,099</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>63,829</u>	<u>63,829</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)	-	-	(8,990)	(8,990)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(8,990)</u>	<u>(8,990)</u>
Excess (deficiency) of revenues over (under) expenditures and other uses	<u>-</u>	<u>-</u>	<u>54,839</u>	<u>54,839</u>
Fund balance, January 1	<u>580,260</u>	<u>580,260</u>	<u>580,260</u>	<u>-</u>
Fund balance, December 31	<u><u>\$ 580,260</u></u>	<u><u>\$ 580,260</u></u>	<u><u>\$ 635,099</u></u>	<u><u>\$ 54,839</u></u>

See accountant's report on required supplementary information.

City of Celeste, Texas
Schedule of Changes in Net Pension Liability and Related Ratios
Last 10 Fiscal Years (will ultimately be displayed)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service cost	\$ 8,703	\$ 6,840	\$ 6,329
Interest (on the Total Pension Liability)	6,781	6,113	6,093
Change in benefit terms including substantively automatic status	-	-	-
Difference between expected and actual experience	(1,615)	1,548	(5,891)
Change in assumptions	-	4,129	-
Benefit payments, including refunds of employee contributions	<u>(9,118)</u>	<u>(3,740)</u>	<u>(9,284)</u>
Net Change in Total Pension Liability	4,751	14,890	(2,753)
Total Pension Liability - Beginning	100,663	85,773	88,526
Total Pension Liability - Ending	<u>\$ 105,414</u>	<u>\$ 100,663</u>	<u>\$ 85,773</u>
 Plan Fiduciary Net Position			
Contributions - employer	\$ 10,664	\$ 6,495	\$ 2,877
Contributions - employee	5,905	5,402	2,659
Net investment income	2,453	41	1,724
Benefit payments, including refunds of employee contributions	(9,118)	(3,740)	(9,284)
Administrative expense	(28)	(25)	(18)
Other	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
Net Change in Plan Fiduciary Net Position	9,875	8,172	(2,043)
Plan Fiduciary Net Position - Beginning	36,249	28,077	30,120
Plan Fiduciary Net Position - Ending	<u>\$ 46,124</u>	<u>\$ 36,249</u>	<u>\$ 28,077</u>
 Net Pension Liability - Ending	<u>\$ 59,290</u>	<u>\$ 64,414</u>	<u>\$ 57,696</u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	43.76%	36.01%	32.73%
 Covered Employee Payroll	\$ 118,094	\$ 108,050	\$ 53,186
 Net Pension Liability as a Percentage of Covered Employee Payroll	50.21%	59.61%	108.48%

See accountant's report on required supplementary information.

City of Celeste, Texas
Schedule of Contributions
Last 10 Fiscal Years (will ultimately be displayed)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 7,812	\$ 10,808	\$ 6,652
Contributions in relation to the actuarially determined	7,812	10,808	6,652
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 102,248	\$ 118,093	\$ 108,065
Contributions as a percentage of covered employee payroll	7.64%	9.15%	6.16%

Schedule Notes:

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age Normal
Amortization Method Level Percentage of Payroll, Closed
Remaining Amortization Period 17 years
Asset Valuation Method 10 Year smoothed market; 15% soft corridor
Inflation 2.50%
Salary Increases 3.50% 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 updates for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality RP2000 Combined Mortality Table with Blue Collar Adjustment with males rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

SUPPLEMENTARY SCHEDULES
(UNAUDITED)

CITY OF CELESTE, TEXAS
SCHEDULE OF REAL ESTATE TAXES RECEIVABLE
YEAR ENDED DECEMBER 31, 2017 (Unaudited)

<u>Tax Roll Year</u>	<u>Fiscal Year Ended December 31</u>	<u>Outstanding Balance 12/31/17</u>
2017	2017	\$ 88,298
2016	2016	3,777
2015	2015	2,888
2014	2014	1,987
2013	2013	1,455
2012	2012	966
2011	2011	795
2010	2010	836
2009	2009	606
2008	2008	607
	2005 and prior	3,310
	Allowance for uncollectible tax	<u>(10,553)</u>
	Real estate taxes receivable, net	<u>\$ 94,972</u>

CITY OF CELESTE, TEXAS
HISTORICAL SCHEDULE OF ASSESSED PROPERTY VALUATION
YEAR ENDED DECEMBER 31, 2017 (Unaudited)

Tax Roll Year	Fiscal Year Ended December 31	Net Taxable Valuation
2017	2017	21,056,909
2016	2016	20,406,918
2015	2015	18,867,895
2014	2014	18,322,300
2013	2013	17,336,871
2012	2012	17,463,495
2011	2011	17,361,630
2010	2010	17,255,651
2009	2009	16,988,456
2008	2008	16,890,329

**CITY OF CELESTE, TEXAS
HISTORICAL SCHEDULE OF PROPERTY TAX RATES
YEAR ENDED DECEMBER 31, 2017 (Unaudited)**

Tax Roll Year	Fiscal Year Ended December 31	Tax Rates
2017	2017	0.711670
2016	2016	0.711670
2015	2015	0.711670
2014	2014	0.725140
2013	2013	0.730283
2012	2012	0.735141
2011	2011	0.683050
2010	2010	0.628956
2009	2009	0.640000
2008	2008	0.607449