



Control Number: 50585



Item Number: 1

Addendum StartPage: 0

CITY OF

Lockhart
TEXAS

(512) 398-3461 • FAX (512) 398-5103

RECEIVED
PO Box 239 • Lockhart, Texas 78644
308 West San Antonio Street

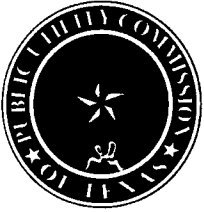
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PUBLIC UTILITY COMMISSION
FILING CLERK

50585

**Public Utility Commission of Texas
Attention: Filing Clerk
1701 N. Congress Avenue
PO Box 13326
Austin Tx 78711-3326**

**Water CCN Transfer
From: Polonia WSC-10420
To: City of Lockhart-10295**



Application for Sale, Transfer, or Merger of a Retail Public Utility

Pursuant to Texas Water Code § 13.301 and 16 Texas Administrative Code § 24.109

150585

Sale, Transfer, or Merger (STM) Application Instructions

- I. **COMPLETE:** In order for the Commission to find the application sufficient for filing, the Applicant should:
- Provide an answer to every question and submit any required attachment applicable to the STM request (i.e., agreements or contracts).
 - Use attachments or additional pages to answer questions as necessary. If you use attachments or additional pages, reference their inclusion in the form.
 - Provide all mapping information as detailed in Part G: Mapping & Affidavits.
- II. **FILE:** Seven (7) copies of the completed application with numbered attachments. One copy should be filed with no permanent binding, staples, tabs, or separators; and 7 copies of the portable electronic storage medium containing the digital mapping data.
- SEND TO:** Public Utility Commission of Texas, Attention: Filing Clerk, 1701 N. Congress Avenue, P.O. Box 13326, Austin, Texas 78711-3326 (NOTE: Electronic documents may be sent in advance of the paper copy, however they will not be processed and added to the Commission's on-line Interchange until the paper copy is received and file-stamped in Central Records).
- III. The application will be assigned a docket number, and an administrative law judge (ALJ) will issue an order requiring Commission Staff to file a recommendation on whether the application is sufficient. The ALJ will issue an order after Staff's recommendation has been filed:
- DEFICIENT (Administratively Incomplete):** Applicants will be ordered to provide information to cure the deficiencies by a certain date, usually 30 days from ALJ's order. **Application is not accepted for filing.**
 - SUFFICIENT (Administratively Complete):** Applicants will be ordered by the ALJ to give appropriate notice of the application using the notice prepared by Commission Staff. **Application is accepted for filing.**
- IV. Once the Applicants issue notice, a copy of the actual notice sent and an affidavit attesting to notice should be filed in the docket assigned to the application. Recipients of notice may request a hearing on the merits.
HEARING ON THE MERITS: An affected party may request a hearing within 30 days of notice. In this event, the application may be referred to the State Office of Administrative Hearings (SOAH) to complete this request.
- V. **TRANSACTION TO PROCEED:** at any time following the provision of notice, or prior to 120 days from the last date that proper notice was given, Commission Staff will file a recommendation for the transaction to proceed as proposed or recommend that the STM be referred to SOAH for further investigation. The Applicants will be required to file an update in the docket to the ALJ every 30 days following the approval of the transaction. The transaction must be completed within six (6) months from the ALJ's order (Note: The Applicants may request an extension to the 6 month provision for good cause).
- VI. **FILE:** Seven (7) copies of completed transaction documents and documentation addressing the transfer or disposition of any outstanding deposits. After receiving all required documents from the Applicants, the application will be granted a procedural schedule for final processing. The Applicants are requested to consent in writing to the proposed maps and certificates, or tariff if applicable.
- VII. **FINAL ORDER:** The ALJ will issue a final order issuing or amending the applicable CCNs.

FAQ:

Who can use this form?

Any retail public utility that provides water or wastewater service in Texas.

Who is required to use this form?

A retail public utility that is an investor owned utility (IOU) or a water supply corporation (WSC) prior to any STM of a water or sewer system, or utility, or prior to the transfer of a portion of a certificated service area.

Terms

Transferor: Seller

Transferee: Purchaser

CCN: Certificate of Convenience and Necessity

STM: Sale, Transfer, or Merger

IOU: Investor Owned Utility

Application Summary

Transferor: Polonia WSC

(selling entity)

CCN No.s: 10420

☐

Sale

☒

Transfer

☐

Merger

☐

Consolidation

☐

Lease/Rental

Transferee: City of Lockhart

(acquiring entity)

CCN No.s: 10295

☒

Water

☐

Sewer

☐

All CCN

☐

Portion CCN

☐

Facilities transfer

County(ies): Caldwell

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Please mark the items included in this filing

<input checked="" type="checkbox"/>	Contract, Lease, Purchase, or Sale Agreement	Part A: Question 1
<input checked="" type="checkbox"/>	Tariff including Rate Schedule	Part B: Question 4
<input checked="" type="checkbox"/>	List of Customer Deposits	Part B: Question 5
<input type="checkbox"/>	Partnership Agreement	Part C: Question 7
<input type="checkbox"/>	Articles of Incorporation and By-Laws (WSC)	Part C: Question 7
<input type="checkbox"/>	Certificate of Account Status	Part C: Question 7
<input checked="" type="checkbox"/>	Financial Audit	Part C: Question 10
<input type="checkbox"/>	Application Attachment A & B	Part C: Question 10
<input type="checkbox"/>	Disclosure of Affiliated Interests	Part C: Question 10
<input type="checkbox"/>	Capital Improvement Plan	Part C: Question 10
<input type="checkbox"/>	List of Assets to be Transferred	Part D: 11.B
<input type="checkbox"/>	Developer Contribution Contracts or Agreements	Part D: 11.D
<input type="checkbox"/>	Enforcement Action Correspondence	Part E: Question 18 (Part D: Q12)
<input checked="" type="checkbox"/>	TCEQ Compliance Correspondence	Part F: Question 22
<input type="checkbox"/>	TCEQ Engineering Approvals	Part F: Question 24
<input type="checkbox"/>	Purchased Water Supply or Treatment Agreement	Part F: Question 26
<input checked="" type="checkbox"/>	Detailed (large scale) Map	Part G: Question 29
<input checked="" type="checkbox"/>	General Location (small scale) Map	Part G: Question 29
<input checked="" type="checkbox"/>	Digital Mapping Data	Part G: Question 29
<input checked="" type="checkbox"/>	Signed & Notarized Oath	Page 13-14

Part A: General Information

1. Describe the proposed transaction, including the effect on all CCNs involved, and provide details on the existing or expected land use in the area affected by the proposed transaction. Attach all supporting documentation, such as a contract, a lease, or proposed purchase agreements:

This transaction only affects Polonia's WCS and City of Lockhart's CCN. The proposed area is currently rural. Polonia serves this area now but, due to increased demand they have expressed interest to transfer a portion of their CCN to the City of Lockhart. This area would be very expensive for Polonia to upgrade the service capacity. The City of Lockhart has the ability to increase the service capacity in this area.

2. The proposed transaction will require (check all applicable):

For **Transferee** (Purchaser) CCN:

- ☐ Obtaining a NEW CCN for Purchaser
☐ Transfer all CCN into Purchaser's CCN (Merger)
☒ Transfer Portion of CCN into Purchaser's CCN
☐ Transfer all CCN to Purchaser and retain Seller CCN
☐ Uncertificated area added to Purchaser's CCN

For **Transferor** (Seller) CCN:

- ☐ Cancellation of Seller's CCN
☒ Transfer of a Portion of Seller's CCN to Purchaser
☐ Only Transfer of Facilities, No CCN or Customers
☐ Only Transfer of Customers, No CCN or Facilities
☐ Only Transfer CCN Area, No Customers or Facilities

Part B: Transferor Information

Questions 3 through 5 apply only to the *transferor* (current service provider or seller)

3. A. Name: Polonia Water Supply Corporation

(individual, corporation, or other legal entity)

☐ Individual

☐ Corporation

☒ WSC

☐ Other: _____

- B. Mailing Address: 2990 FM 1185 Lockhart, TX 78644

Phone: (512) 559-2030

Email: paulp@ranchwireless.com

- C. Contact Person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant, or other title.

Name: Paul Pittman

Title: General Manager

Mailing Address: 2990 FM 1185 Lockhart, TX 78644

Phone: (512) 559-2030

Email: paulp@ranchwireless.com

4. If the utility to be transferred is an Investor Owned Utility (IOU), for the most recent rate change, attach a copy of the current tariff and complete A through B:

- A. Effective date for most recent rates: _____

- B. Was notice of this increase provided to the Public Utility Commission of Texas (Commission) or a predecessor regulatory authority?

☐ No

☐ Yes

Application or Docket Number: _____

If the transferor is a Water Supply or Sewer Service Corporation, provide a copy of the current tariff.

5. For the customers that will be transferred following the approval of the proposed transaction, check all that apply:

☐ There are no customers that will be transferred

☒ # of customers without deposits held by the transferor 25

☐ # of customers with deposits held by the transferor* _____

*Attach a list of all customers affected by the proposed transaction that have deposits held, and include a customer indicator (name or account number), date of each deposit, amount of each deposit, and any unpaid interest on each deposit.

Part C: Transferee Information

Questions 6 through 10 apply only to the *transferee* (purchaser or proposed service provider)

6. A. Name: City of Lockhart

(individual, corporation, or other legal entity)

☐ Individual ☐ Corporation ☐ WSC ☒ Other: Municipality

B. Mailing Address: PO Box 239, Lockhart, Texas 78644

Phone: (512) 398-3461 Email: publicworks@lockhart-tx.org

C. Contact Person. Provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant, or other title.

Name: Sean Kelley Title: Public Works Director

Address: PO Box 230, Lockhart, Texas 78644

Phone: (512) 398-6452 Email: skelley@lockhart-tx.org

D. If the transferee is someone other than a municipality, is the transferee current on the Regulatory Assessment Fees (RAF) with the Texas Commission on Environmental Quality (TCEQ)?

☒ No ☐ Yes ☐ N/A

E. If the transferee is an IOU, is the transferee current on the Annual Report filings with the Commission?

☒ No ☐ Yes ☐ N/A

7. The legal status of the transferee is:

☐ Individual or sole proprietorship

☐ Partnership or limited partnership (*attach* Partnership agreement)

☐ Corporation
Charter number (as recorded with the Texas Secretary of State): _____

☐ Non-profit, member-owned, member controlled Cooperative Corporation [Article 1434(a) Water Supply or Sewer Service Corporation, incorporated under TWC Chapter 67]

Charter number (as recorded with the Texas Secretary of State): _____

☐ Articles of Incorporation and By-Laws established (*attach*)

☒ Municipally-owned utility

☐ District (MUD, SUD, WCID, FWSD, etc.)

- ☐ County
- ☐ Affected County (a county to which Subchapter B, Chapter 232, Local Government Code, applies)
- ☐ Other (please explain): _____

8. If the transferee operates under any d/b/a, provide the name below:

Name: _____

9. If the transferee's legal status is anything other than an individual, provide the following information regarding the officers, members, or partners of the legal entity applying for the transfer:

Name: _____

Position: _____ Ownership % (if applicable): 0.00%

Address: _____

Phone: _____ Email: _____

Name: _____

Position: _____ Ownership % (if applicable): 0.00%

Address: _____

Phone: _____ Email: _____

Name: _____

Position: _____ Ownership % (if applicable): 0.00%

Address: _____

Phone: _____ Email: _____

Name: _____

Position: _____ Ownership % (if applicable): 0.00%

Address: _____

Phone: _____ Email: _____

10. **Financial Information**

The transferee Applicant must provide accounting information typically included within a balance sheet, income statement, and statement of cash flows. If the Applicant is an existing retail public utility, this must include historical financial information and projected financial information. However, projected financial information is only required if the Applicant proposes new service connections and new investment in plant, or if requested by Staff. If the Applicant is a new market entrant and does not have its own historical balance sheet, income statement, and statement of cash flows information, then the Applicant should establish a five-year projection taking the historical information of the transferor Applicant into consideration when establishing the projections.

Historical Financial Information may be shown by providing any combination of the following that includes necessary information found in a balance sheet, income statement, and statement of cash flows:

1. Completed Appendix A;
2. Documentation that includes all of the information required in Appendix A in a concise format; or
3. Audited financial statements issued within 18 months of the application filing date. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

Projected Financial Information may be shown by providing any of the following:

1. Completed Appendix B;
2. Documentation that includes all of the information required in Appendix B in a concise format;
3. A detailed budget or capital improvement plan, which indicates sources and uses of funds required, including improvements to the system being transferred; or
4. A recent budget and capital improvements plan that includes information needed for analysis of the operations test (16 Tex. Admin. Code § 24.11(e)(3)) for the system being transferred and any operations combined with the system. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

Part D: Proposed Transaction Details

11. A. Proposed Purchase Price: \$ 10.00

If the transferee Applicant is an investor owned utility (IOU) provide answers to B through D.

B. Transferee has a copy of an inventory list of assets to be transferred (*attach*):

☐ No ☐ Yes ☐ N/A

Total Original Cost of Plant in Service: \$

Accumulated Depreciation: \$

Net Book Value: \$

C. **Customer contributions in aid of construction (CIAC)**: Have the customers been billed for any surcharges approved by the Commission or TCEQ to fund any assets currently used and useful in providing utility service? Identify which assets were funded, or are being funded, by surcharges on the list of assets.

☐ No ☐ Yes

Total Customer CIAC: \$

Accumulated Amortization: \$

D. **Developer CIAC**: Did the transferor receive any developer contributions to pay for the assets proposed to be transferred in this application? If so, identify which assets were funded by developer contributions on the list of assets and provide any applicable developer agreements.

☐ No ☐ Yes

Total developer CIAC: \$

Accumulated Amortization: \$

12. A. Are any improvements or construction required to meet the minimum requirements of the TCEQ or Commission and to ensure continuous and adequate service to the requested area to be transferred plus any area currently certificated to the transferee Applicant? Attach supporting documentation and any necessary TCEQ approvals, if applicable.

☒ No ☐ Yes

B. If yes, describe the source and availability of funds and provide an estimated timeline for the construction of any planned or required improvements:

13. Provide any other information concerning the nature of the transaction you believe should be given consideration:

14. Complete the following proposed entries (listed below) as shown in the books of the Transferee (purchaser) after the acquisition. Debits (positive numbers) should equal credits (negative numbers) so that all line items added together equal zero. Additional entries may be made; the following are suggested only, and not intended to pose descriptive limitations:

Utility Plant in Service: \$ _____

Accumulated Depreciation of Plant: \$ _____

Cash: \$ _____

Notes Payable: \$ _____

Mortgage Payable: \$ _____

(Proposed) Acquisition Adjustment*: \$ _____

*Acquisition Adjustments will be subject to review under 16 TAC § 24.31(d) and (e)

Other (NARUC account name & No.): _____

Other (NARUC account name & No.): _____

15. A. Explain any proposed billing change (NOTE: If the acquiring entity is an IOU, the IOU may not change the rates charged to the customers through this STM application. Rates can only be changed through the approval of a rate change application.)

From:Polonia Current Rate- Only Residential Accounts are Affected
Base Billing Rate=\$26.86, \$2.93/1000 gallons between 0 and 5000- \$3.66/1,000 gallons between 5,001-10,000-\$4.94/1,000 gallons between 10,001 and 15,000-\$6.66/1,000 between 15,001 and 20,000- \$9.33/1,000 gallons between 20,001 and 30,000-\$13.53/1,000 over 30,001 gallons
To: City of Lockhart's Current Rate- Only Residential Accounts are affected
Fixed Monthly Charge for Includes 2,000 Gallons= \$22.60 In town base rate and \$27.60 Out of town base rate.
\$4.50/1,000 gallons between 2,001 and 6,000- \$4.75/ 1,000 gallons between 6,001 and 8,000- \$5.00/1000 gallons between 8,001 and 10,000-\$5 75/1000 gallon greater then 10,000

B. If transferee is an IOU, state whether or not the transferee intends to file with the Commission, or an applicable municipal regulatory authority, an application to change rates for some or all of its customers as a result of the transaction within the next twelve months. If so, provide details below:

Part E: CCN Obtain or Amend Criteria Considerations

16. Describe, in detail, the anticipated impact or changes in the quality of retail public utility service in the requested area as a result of the proposed transaction:

We do not anticipate any changes to the quality of the water to be provided to the newly acquired customers. The City of Lockhart has a Superior water rating that has been issued by TCEQ.

17. Describe the transferee's experience and qualifications in providing continuous and adequate service. This should include, but is not limited to: other CCN numbers, water and wastewater systems details, and any corresponding compliance history for all operations.

The City of Lockhart operates a water and wastewater sysem that provides service to over 14,000 customers. We partner with GBRA to operate the City owned WTP and WWTPs. The City of Lockhart and GBRA have no current compliance issues.

18. Has the transferee been under an enforcement action by the Commission, TCEQ, Texas Department of Health (TDH), the Office of the Attorney General (OAG), or the Environmental Protection Agency (EPA) in the past five (5) years for non-compliance with rules, orders, or state statutes? Attach copies of any correspondence with the applicable regulatory agency(ies)

☒ No ☐ Yes

19. Explain how the environmental integrity or the land will be impacted or disrupted as a result of the proposed transaction:

We do not expect any disruption to land or the enviroment. We plan on using the current existing water infrastructure to give these customers service.

20. How will the proposed transaction serve the public interest?

This transaction will give these land owners the oppertunity to increase their service needs. It also allows for better fire protection abilities in the future.

21. List all neighboring water or sewer utilities, cities, districts (including ground water conservation districts), counties, or other political subdivisions (including river authorities) providing the same service within two (2) miles from the outer boundary of the requested area affected by the proposed transaction:

**County Line WSC-10292
Maxwell WSC-10293**

Part F: TCEQ Public Water System or Sewer (Wastewater) Information

Complete Part F for EACH Public Water or Sewer system to be transferred subject to approval of the transaction. Attach a separate sheet with this information if you need more space for additional systems being transferred.

22. A. For Public Water System (PWS):

TCEQ PWS Identification Number: 0280005 & 0280007 (7 digit ID)

Name of PWS: Polonia WSC

Date of last TCEQ compliance inspection: June 13, 2017 (attach TCEQ letter)

Subdivisions served: _____

B. For Sewer service:

TCEQ Water Quality (WQ) Discharge Permit Number: WQ - (8 digit ID)

Name of Wastewater Facility: _____

Name of Permittee: _____

Date of last TCEQ compliance inspection: _____ (attach TCEQ letter)

Subdivisions served: _____

Date of application to transfer permit submitted to TCEQ: _____

23. List the number of existing connections, by meter/connection type, to be affected by the proposed transaction:

Water				Sewer	
	Non-metered		2"		Residential
25	5/8" or 3/4"		3"		Commercial
	1"		4"		Industrial
	1 1/2"		Other		Other
Total Water Connections:			25	Total Sewer Connections:	

24. A. Are any improvements required to meet TCEQ or Commission standards?

☒ No ☐ Yes

B. Provide details on each required major capital improvement necessary to correct deficiencies to meet the TCEQ or Commission standards (attach any engineering reports or TCEQ approval letters):

Description of the Capital Improvement:	Estimated Completion Date:	Estimated Cost:

C. Is there a moratorium on new connections?

☒ No ☐ Yes:

25. Does the system being transferred operate within the corporate boundaries of a municipality?

☐ No ☒ Yes: City of Lockhart (name of municipality)

If yes, indicate the number of customers within the municipal boundary.

Water: 5 Sewer: 0

26. A. Does the system being transferred purchase water or sewer treatment capacity from another source?

☐ No ☒ Yes: If yes, attach a copy of purchase agreement or contract.

Capacity is purchased from: City of Lockhart

Water: 0

Sewer: 0

B. Is the PWS required to purchase water to meet capacity requirements or drinking water standards?

☒ No ☐ Yes

C. What is the amount of water supply or sewer treatment purchased, per the agreement or contract? What is the percent of overall demand supplied by purchased water or sewer treatment (if any)?

	Amount in Gallons	Percent of demand
Water:	0.00	0.00%
Sewer:	0.00	0.00%

D. Will the purchase agreement or contract be transferred to the Transferee?

☒ No ☐ Yes:

27. Does the PWS or sewer treatment plant have adequate capacity to meet the current and projected demands in the requested area?

☐ No ☒ Yes:

28. List the name, class, and TCEQ license number of the operator that will be responsible for the operations of the water or sewer utility service:

Name (as it appears on license)	Class	License No.	Water or Sewer
Sean P Kelley	A	WO0031836	Water

Part G: Mapping & Affidavits

ALL applications require mapping information to be filed in conjunction with the STM application.

Read question 29 A and B to determine what information is required for your application.

29. A. For applications requesting to transfer an entire CCN, without a CCN boundary adjustment, provide the following mapping information with each of the seven (7) copies of the application:

1. A general location (small scale) map identifying the requested area in reference to the nearest county boundary, city, or town. The following guidance should be adhered to:
 - i. If the application requests to transfer certificated service areas for both water and sewer, separate maps must be provided for each.
 - ii. A hand drawn map, graphic, or diagram of the requested area is not considered an acceptable mapping document.

- iii. To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.

- 2. A detailed (large scale) map identifying the requested area in reference to verifiable man-made and natural landmarks such as roads, rivers, and railroads. The Applicant should adhere to the following guidance:
 - i. The map must be clearly labeled and the outer boundary of the requested area should be marked in reference to the verifiable man-made or natural landmarks. These verifiable man-made or natural landmarks must be labeled and marked on the map as well.
 - ii. If the application requests an amendment for both water and sewer certificated service area, separate maps need to be provided for each.
 - iii. To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.
 - iv. The outer boundary of the requested area should not be covered by any labels, roads, city limits or extraterritorial jurisdiction (ETJ) boundaries.

B. For applications that are requesting to include area not currently within a CCN, or for applications that require a CCN amendment (any change in a CCN boundary), such as the transfer of only a portion of a certificated service area, provide the following mapping information with each of the seven (7) copies of the application:

- 1. A general location (small scale) map identifying the requested area with enough detail to locate the requested area in reference to the nearest county boundary, city, or town. Please refer to the mapping guidance in part A 1 (above).
- 2. A detailed (large scale) map identifying the requested area with enough detail to accurately locate the requested area in reference to verifiable man-made or natural landmarks such as roads, rivers, or railroads. Please refer to the mapping guidance in part A 2 (above).
- 3. One of the following identifying the requested area:
 - i. A metes and bounds survey sealed or embossed by either a licensed state land surveyor or a registered professional land surveyor. Please refer to the mapping guidance in part A 2 (above);
 - ii. A recorded plat. If the plat does not provide sufficient detail, Staff may request additional mapping information. Please refer to the mapping guidance in part A 2 (above); or
 - iii. Digital mapping data in a shapefile (SHP) format georeferenced in either NAD 83 Texas State Plane Coordinate System (US Feet) or in NAD 83 Texas Statewide Mapping System (Meters). The digital mapping data shall include a single, continuous polygon record. The following guidance should be adhered to:
 - a. The digital mapping data must correspond to the same requested area as shown on the general location and detailed maps. The requested area must be clearly labeled as either the water or sewer requested area.
 - b. A shapefile should include six files (.dbf, .shp, .shx, .sbx, .sbn, and the projection (.prj) file).
 - c. The digital mapping data shall be filed on a data disk (CD or USB drive), clearly labeled, and filed with Central Records. Seven (7) copies of the digital mapping data is also required.

Part H: Notice Information

The following information will be used to generate the proposed notice for the application.
DO NOT provide notice of the application until it is found sufficient and the Applicants are ordered to provide notice.

30. Complete the following using verifiable man-made or natural landmarks such as roads, rivers, or railroads to describe the requested area (to be stated in the notice documents). Measurements should be approximated from the outermost boundary of the requested area:

The total acreage of the requested area is approximately: 2,183.73

Number of customer connections in the requested area: 25

Affected subdivision : N/A

The closest city or town: City of Lockhart

Approximate mileage to closest city or town center: 3

Direction to closest city or town: South

The requested area is generally bounded on the North by: Cypress Road and Plum Creek

on the East by: Lockhart City Limits

on the South by: Silent Valley Road (FM 2001)

on the West by: Boggy Creek and Clearfork/Plum Creek

31. A copy of the proposed map will be available at: City of Lockhart City Hall, 308 West San Antonio Street, Lockhart, Texas 78644

32. What effect will the proposed transaction have on an average bill to be charged to the affected customers? Take into consideration the average consumption of the requested area, as well as any other factors that would increase or decrease a customer's monthly bill.

☐ All of the customers will be charged the same rates they were charged before the transaction.

☒ All of the customers will be charged different rates than they were charged before the transaction.

☐ higher monthly bill ☒ lower monthly bill

☐ Some customers will be charged different rates than they were charged before
(i.e. inside city limit customers)

☐ higher monthly bill ☐ lower monthly bill

Oath for Transferor (Transferring Entity)

STATE OF Texas

COUNTY OF Cameron

I, Joe Kelly being duly sworn, file this application for sale,
transfer,
merger, consolidation, acquisition, lease, or
rental, as President, Polonia WCS

(owner, member of partnership, title as officer of corporation, or authorized representative)

I attest that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to Applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I further state that I have provided to the purchaser or transferee a written disclosure statement about any contributed property as required under Texas Water Code § 13.301(j) and copies of any outstanding enforcement Orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas, or Attorney General and have also complied with the notice requirements in Texas Water Code § 13.301(k).

Joe Kelly

AFFIANT

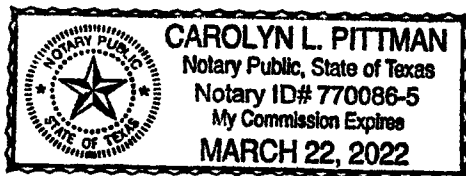
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN BEFORE ME, a Notary Public in and for the State of Texas

this day the 11th of February 2020

SEAL



Carolyn L. Pittman

NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS

Carolyn L. Pittman

PRINT OR TYPE NAME OF NOTARY

My commission expires:

3/22/22

Oath for Transferee (Acquiring Entity)

STATE OF Texas

COUNTY OF Calwell

I, Sean Kelley being duly sworn, file this application for sale, transfer, merger, consolidation, acquisition, lease, or rental, as Public Utility Commission of Texas
(owner, member of partnership, title as officer of corporation, or authorized representative)

I attest that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to Applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I further state that I have been provided with a copy of the 16 TAC § 24.109 Commission rules. I am also authorized to agree and do agree to be bound by and comply with any outstanding enforcement orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not comply.

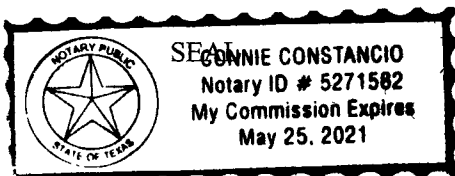
Sean Kelley

AFFIANT

(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN BEFORE ME, a Notary Public in and for the State of Texas
this day the 20th of February, 2020



Connie Constancio

**NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS**

PRINT OR TYPE NAME OF NOTARY

My commission expires: Connie Constancio

Appendix A: Historical Financial Information (Balance Sheet and Income Schedule)

(Audited financial statements may be substituted for this schedule – see Item 17 of the instructions)

HISTORICAL BALANCE SHEETS (ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
CURRENT ASSETS						
Cash						
Accounts Receivable						
Inventories						
Other						
A. Total Current Assets						
FIXED ASSETS						
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
B. Total Fixed Assets						
C. TOTAL Assets (A + B)						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses						
Other						
D. Total Current Liabilities						
LONG TERM LIABILITIES						
Notes Payable, Long-term						
Other						
E. Total Long Term Liabilities						
F. TOTAL LIABILITIES (D + E)						
OWNER'S EQUITY						
Paid in Capital						
Retained Equity						
Other						
Current Period Profit or Loss						
G. TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES+EQUITY (F + G) = C						
WORKING CAPITAL (A – D)						
CURRENT RATIO (A / D)						
DEBT TO EQUITY RATIO (E / G)						

DO NOT INCLUDE ATTACHMENTS A OR B IN FILED APPLICATION IF LEFT BLANK

HISTORICAL NET INCOME INFORMATION

(ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
METER NUMBER						
Existing Number of Taps						
New Taps Per Year						
Total Meters at Year End						
METER REVENUE						
Revenue per Meter (use for projections)						
Expense per Meter (use for projections)						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Revenues- Base Rate & Gallonage Fees						
Other (Tap, reconnect, transfer fees, etc)						
Gross Income						
EXPENSES						
General & Administrative (see schedule)						
Operating (see schedule)						
Interest						
Other (list)						
NET INCOME						

HISTORICAL EXPENSE INFORMATION (ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries & Benefits–Office/Management						
Office (services, rentals, supplies, electricity)						
Contract Labor						
Transportation						
Insurance						
Telephone						
Utilities						
Property Taxes						
Professional Services/Fees (recurring)						
Regulatory- other						
Other (describe)						
Interest						
Other						
Total General Admin. Expenses (G&A)						
% Increase Per Year	0 00%	0 00%	0 00%	0.00%	0.00%	0 00%
OPERATIONS & MAINTENANCE EXPENSES						
Salaries & Benefits (Employee, Management)						
Materials & Supplies						
Utilities Expense-office						
Contract Labor						
Transportation Expense						
Depreciation Expense						
Other(describe)						
Total Operational Expenses (O&M)						
Total Expense (Total G&A + O&M)						
Historical % Increase Per Year	0 00%	0 00%	0 00%	0.00%	0 00%	0.00%
ASSUMPTIONS						
Interest Rate/Terms						
Depreciation Schedule (attach)						
Other assumptions/information (List all)						

Appendix B: Projected Information

HISTORICAL BALANCE SHEETS (ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
CURRENT ASSETS						
Cash						
Accounts Receivable						
Inventories						
Income Tax Receivable						
Other						
A. Total Current Assets						
FIXED ASSETS						
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
B. Total Fixed Assets						
C. TOTAL Assets (A + B)						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses						
Other						
D. Total Current Liabilities						
LONG TERM LIABILITIES						
Notes Payable, Long-term						
Other						
E. Total Long Term Liabilities						
F. TOTAL LIABILITIES (D + E)						
OWNER'S EQUITY						
Paid in Capital						
Retained Equity						
Other						
Current Period Profit or Loss						
G. TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES+EQUITY (F + G) = C						
WORKING CAPITAL (A - D)						
CURRENT RATIO (A / D)						
DEBT TO EQUITY RATIO (F / G)						

PROJECTED NET INCOME INFORMATION						
(ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
METER NUMBER						
Existing Number of Taps						
New Taps Per Year						
Total Meters at Year End						
METER REVENUE						
Revenue per Meter (use for projections)						
Expense per Meter (use for projections)						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Revenues- Base Rate & Gallonage Fees						
Other (Tap, reconnect, transfer fees, etc)						
Gross Income						
EXPENSES						
General & Administrative (see schedule)						
Operating (see schedule)						
Interest						
Other (list)						
NET INCOME						

PROJECTED EXPENSE DETAIL	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries						
Office						
Computer						
Auto						
Insurance						
Telephone						
Utilities						
Depreciation						
Property Taxes						
Professional Fees						
Interest						
Other						
Total						
% Increase Per projected Year	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
OPERATIONAL EXPENSES						
Salaries						
Auto						
Utilities						
Depreciation						
Repair & Maintenance						
Supplies						
Interest						
Other						
Total						

PROJECTED SOURCES AND USES OF CASH STATEMENTS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
SOURCES OF CASH						
Net Income						
Depreciation (If funded by revenues of system)						
Loan Proceeds						
Other						
Total Sources						
USES OF CASH						
Net Loss						
Principle Portion of Pmts.						
Fixed Asset Purchase						
Reserve						
Other						
Total Uses						
NET CASH FLOW						
DEBT SERVICE COVERAGE						
Cash Available for Debt Service (CADS)						
A: Net Income (Loss)						
B: Depreciation, or Reserve Interest						
C: Total CADS (A + B = C)						
D: DEBT SERVICE (DS)						
Principle Plus Interest						
E: DEBT SERVICE COVERAGE RATIO						
CADS Divided by DS (E = C / D)						

CITY OF

Lockhart
TEXAS

(512) 398-3461 • FAX (512) 398-5103
P.O. Box 239 • Lockhart, Texas 78644
308 West San Antonio Street

Part A: Question 1

Agreement and Bill of Sale

Note: The Bill of Sale will be signed within seven (7) days prior to the transfer of service date-See Agreement Sec. 1.3 (a)

**AGREEMENT BETWEEN THE CITY OF LOCKHART, TEXAS, AND
POLONIA WATER SUPPLY CORPORATION, CALDWELL COUNTY, TEXAS**

This agreement is executed between and among the City of Lockhart, Texas ("Lockhart" or the "City"), and Polonia Water Supply Corporation ("Polonia") for the purposes and consideration set forth herein. The City and Polonia are herein referred to individually as a "Party" and collectively as the "Parties."

RECITALS

WHEREAS, Lockhart is a home rule municipality organized in accordance with the laws of the State of Texas; and

WHEREAS, Polonia is a nonprofit water supply corporation organized under the laws of the State of Texas and authorized to exercise all powers, privileges and rights conferred on a water supply corporation under the laws of the State of Texas; and

WHEREAS, both Lockhart and Polonia are "retail public utilities" as defined in 13.002 of the Texas Water Code. Lockhart is the holder of Certificates of Convenience and Necessity ("CCN") No. 10295 and Polonia is the holder of CCN No. 10420; and

WHEREAS, Polonia and Lockhart mutually desire to transfer a certain portion of Polonia's CCN area, customers and related assets to Lockhart under certain conditions, particularly that there be neither cost nor compensation to Polonia, for such transfer; and

WHEREAS, Section 13.248 of the Texas Water Code provides that contracts between retail public utilities designating areas to be served and customers to be served by those retail public utilities, when approved by the Public Utility Commission of Texas ("PUC") after public notice and hearing, are valid and enforceable and are incorporated into the appropriate areas of public convenience and necessity

WHEREAS, the Lockhart City Council considered and acted upon this agreement at an open meeting, posted and noticed in accordance with the Texas Open Meeting Act, Chapter 551, Texas Government Code; and

WHEREAS, the Lockhart City Council and the Polonia Board of Directors each has determined that it has the power to enter into this Agreement, has approved this Agreement, and has authorized its execution; and

WHEREAS, Polonia considered and acted upon this agreement at an open meeting, posted and noticed in accordance with the Texas Open Meeting Act, Chapter 551, Texas Government Code;

AGREEMENT

NOW THEREFORE, for good and valuable consideration and the mutual promises and covenants herein expressed, the sufficiency of which is hereby acknowledged. Lockhart and Polonia agree as follows:

I.

TRANSFER OF WATER UTILITY CCN SERVICE AREA, CUSTOMERS, EASEMENTS, AND FACILITIES

1.1 Transfer of CCN Territory: Subject to receipt of PUC approval of this Agreement, the Parties agree that the area described and depicted on the map which is attached to this Agreement as Exhibit "A" (the "Transfer Area"), which map is incorporated into this Agreement for all purposes, shall be singly certificated to the City, and the City shall have sole and exclusive rights to provide retail water service within such territory from and after the Service Transfer Date (defined below).

1.2 Transfer of Customers and Service.

(a) Polonia shall be responsible for, and shall continue to provide, retail water service within the Transfer Area in accordance with its policies, CCN, and Tariff until the Service Transfer Date.

(b) Commencing upon the Service Transfer Date, the City shall provide retail water service to all customers within the Transfer Area in accordance with the standard terms, conditions and policies of the City.

(c) Upon receipt of PUC approval of this Agreement, the Parties shall agree upon a date for transfer of ownership of the Water System Assets (defined below) from Polonia to the City (the "Service Transfer Date"), which date shall also represent the date that the City assumes responsibility for the provision of retail water service to all customers within the Transfer Area. The Service Transfer Date shall be not later than sixty (60) days after the effective date of approval of the designation of customers and service territory provisions of this Agreement by the PUC pursuant to Section 13.248 of the Texas Water Code.

(d) To provide for the transition of retail water service by Polonia to the City in an orderly manner effective as of the Service Transfer Date, the Parties agree as follows:

(i) the Parties shall coordinate in good faith the transition of service responsibilities from Polonia to the City in such a manner as to minimize the disruption of service and to ensure the provision of continuous and adequate water utility service to customers;

(ii) the City shall have the right to inspect the Water System Assets (as defined below) at any reasonable time prior to the Service Transfer Date;

(iii) Polonia shall furnish any available billing and customer account information to the City for existing customers within the Transfer Area promptly upon request;

(iv) from and after the Service Transfer Date, the City shall be responsible for all aspects of providing permanent retail water service to the customers in the Transfer Area in accordance with the City's policies and ordinances;

(v) not later than thirty (30) days prior to the Service Transfer Date, the City shall provide mailed notice to each of the active service customers within the Transfer Area advising the customers of the transfer to City retail service. Polonia shall provide a list of such customers and their mailing address to the City;

(vi) within ninety (90) days after the Service Transfer Date, Polonia shall forward to the City any deposits held by Polonia for customers within the Transfer Area that have not been applied by Polonia to the customer's outstanding bills; and

(vii) Polonia shall be entitled to all revenues for water service rendered by the Polonia prior to the Service Transfer Date; therefore, the City shall cooperate with Polonia after the Service Transfer Date to collect any remaining revenues due to Polonia, including, termination of water service to any customer who fails to timely pay for services rendered by Polonia.

(e) Final meter readings shall be conducted at the end of the regular meter reading period within seven (7) days immediately prior to and as close as practicable to the Service Transfer Date. These readings shall be utilized by Polonia for the purpose of issuing final bills, and shall constitute the opening readings for the City. The City shall use these readings to begin the billing cycle for its new customers following the Service Transfer Date.

1.3 Transfer of Facilities and Easements:

(a) Within seven (7) days immediately prior to the Service Transfer Date, the Parties shall execute that certain "Bill of Sale and Assignment" in the form attached hereto as Exhibit "B." which is incorporated and adopted into this Agreement for all purposes, to transfer the facilities and easements described therein and owned by Polonia within the Transfer Area (the "Water System Assets") to the City, including the Polonia Pump station located on City Property at 1831 South Colorado Street, Parcel No. R17431 and the two inch PVC water main located along Silent Valley Road, to be effective as of the Service Transfer Date.

(b) Polonia shall convey possession of the Water System Assets "as-is," "where-is," and "with all faults."

(c) No Warranties. POLONIA MAKES NO WARRANTY REGARDING THE WATER SYSTEM ASSETS AND RELATED EASEMENT RIGHTS, IF ANY, INCLUDING WITHOUT LIMITATION ANY WARRANTY OF HABITABILITY, SUITABILITY, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR ANY PURPOSE.

1.4 Compensation and Costs: No payment shall be made by the City to Polonia as consideration for transfer and conveyance of the Water System Assets. The transfer of CCN area, customers, and Water System Assets will be accomplished at no cost to Polonia. Lockhart shall be responsible for all costs associated with securing the approval of this Agreement by PUC and transfer of the Water System Assets, including legal and engineering costs, the drawing of the new boundary line between the respective CCN areas, and such other actions and functions necessary to complete the terms of this Agreement.

1.5. Reestablishment of Interconnection: Lockhart and Polonia shall reestablish the interconnection between their respective water system located south of the City at South Colorado Street and Summerside Avenue, which connection was disrupted during the reconstruction of U.S. 183. Lockhart will install a three-inch meter at the location identified in Exhibit "C" attached hereto within 90 days after execution of this Agreement and its approval by the Public Utility Commission. Polonia will be responsible for making connection to the meter at the site of the interconnection. The Parties also agree to explore the possibility of accomplishing another interconnection between Lockhart and Polonia systems at Silent Valley Road, and will, if such interconnection is feasible, accomplish the same at no cost to Polonia.

II. MISCELLANEOUS

2.1 Successors and Assigns: Upon receipt of PUC approval, this Agreement shall be binding on Lockhart and Polonia and their successors and assigns.

2.2 Good Faith Efforts for Approval: Lockhart and Polonia will each use good faith, diligent efforts to obtain the review and approval of the PUC; provided, however, that Lockhart will pay all costs and expenses in connection therewith.

2.3 Notice: Any notice required or permitted to be given under this Agreement by one party to the other shall be in writing and the same shall be deemed to have been served and given if (i) delivered in person to the address set forth below for the party to whom the notice is given; (ii) placed in the United States mail by certified mail return receipt requested, addressed to such party at the address set forth below; or (iii) deposited in the custody of Federal Express Corporation to be sent by Federal Express overnight delivery, addressed to such party at the address set forth below. Any notice mailed in the manner provided above shall be effective upon its deposit into the custody of the United States Postal Service or Federal Express Corporation as applicable and shall be effective upon receipt.

The address of Lockhart for notices and other purposes under this Agreement shall be:

Lockhart City Manager
P. O. Box 239
Lockhart, TX 78644

The address of Polonia for notices and other purposes under this Agreement shall be:

General Manager
Polonia Water Supply Corporation
P. O. Box 778
Lockhart, TX 78644

From time to time either party may designate another address within the United States of America for all purposes of this Agreement by giving the other party not less than ten (10) days advance written notice of such a change of address in accordance with the provisions hereof.

2.4 **Captions:** Captions are included solely for convenience of reference and if there is any conflict between captions and the text of the Agreement, the text shall control.

2.5 **Construction:** Whenever the context requires, the gender of all words herein shall include the masculine, feminine and neuter, and the number of all words shall include the singular and the plural.

2.6 **Incorporation by Reference:** The exhibits, and maps, if any, attached here to are incorporated herein by reference for all purposes.

2.7 **References:** Unless otherwise specified and adopted, references in this Agreement to "paragraphs," or "subparagraphs", refers to the paragraphs or subparagraphs in this Agreement.

2.8 **Applicable Law:** This Agreement shall be construed under and in accordance with the laws of the State of Texas.

2.9 **Venue:** Any action at law or in equity brought to enforce or interpret any provision of this Agreement shall be brought in a court of competent jurisdiction with venue in Caldwell County, Texas.

2.11 **Other Instruments:** The Parties hereto covenant and agree that they shall execute and deliver such other and further instruments and documents as are or may become necessary or convenient to effectuate and carry out the intent of this Agreement.

2.12 **Future Service Area:** This Agreement covers only the property described herein. This Agreement does not alter Lockhart's authority to seek to annex or extend municipal water service into other lands within Polonia's CCN, nor does it impact Polonia's authority to contest any such efforts or actions by the City.

2.13 **Counterparts:** This Agreement may be executed in multiple originals, either copy of which shall be considered to be an original, by the Mayor of Lockhart, and by the President of Polonia Water Supply Corporation.

2.14 **Effective Date:** This Agreement becomes effective upon the date it has been executed by all Parties; provided, however, that the transfer of CCN Area, customers and Water System Assets shall be effective on the Service Transfer Date only after PUC approval of this Agreement.

2.15 **Authorization:** All signing Parties warrant to be duly authorized to execute this Agreement.

EXECUTED IN DUPLICATE ORIGINALS AND AGREED TO by the Parties hereto
this 16th day of December, 2019.

CITY OF LOCKHART

POLONIA WATER SUPPLY CORP.

Lew White

Lew White, Mayor

Date: 12-16-19

Joe M. Kelly

Joe M. Kelly, President

Date: 12/17/19

ATTEST:

Connie Constancio

Connie Constancio, City Secretary

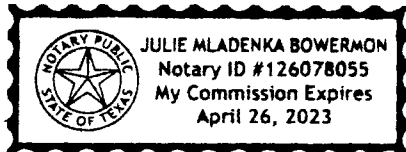
ATTEST:

[Signature]
Secretary

THE STATE OF TEXAS

COUNTY OF CALDWELL

The foregoing instrument was acknowledged before me on the 16th day of DECEMBER, 2019 by Lew White, Mayor of the City of Lockhart, on behalf of the City.



Julie Mladenka Bowermon

NOTARY PUBLIC, STATE OF TEXAS

PRINTED NAME OF NOTARY:

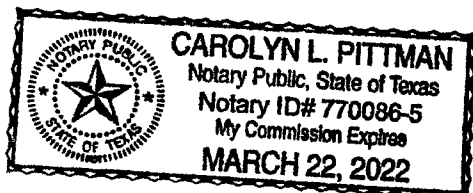
JULIE MLADENKA BOWERMON

4.26.23

MY COMMISSION EXPIRES:

THE STATE OF TEXAS COUNTY OF CALDWELL

The foregoing instrument was acknowledged before me on the 17th day of December, 2019 by Joe M. Kelly, President of Polonia Water Supply Corporation, on behalf of the Corporation.



Carolyn L. Pittman

NOTARY PUBLIC, STATE OF TEXAS

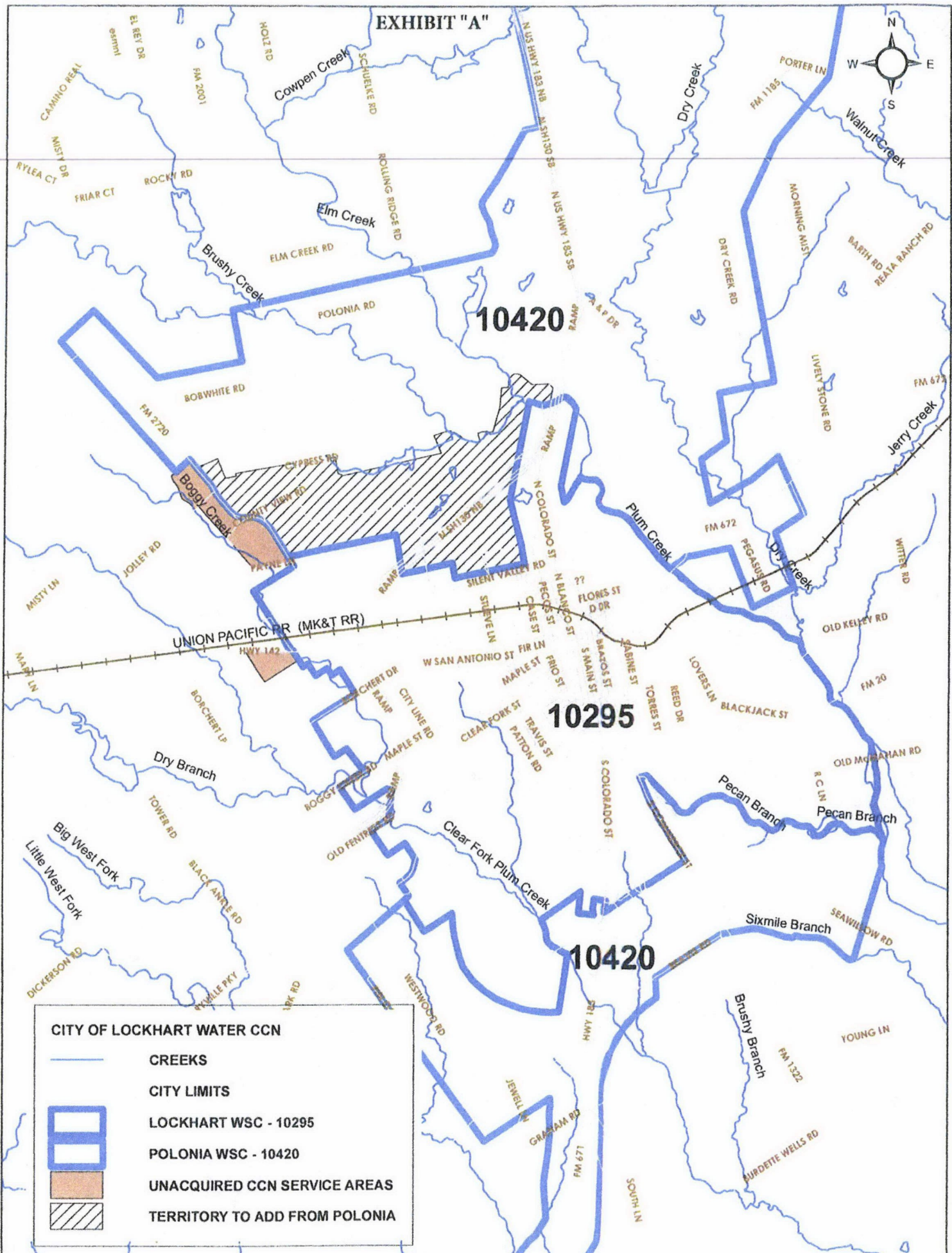
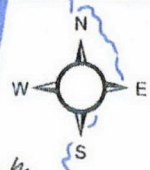
PRINTED NAME OF NOTARY:

Carolyn L. Pittman

March 22, 2022

MY COMMISSION EXPIRES:

EXHIBIT "A"



BILL OF SALE AND ASSIGNMENT

Date: _____, 2019

Grantor: Polonia Water Supply Corporation

Grantor's Mailing Address: P. O. Box 778, Lockhart, TX 78644

Grantee: City of Lockhart, Texas

Grantee's Mailing Address: P. O. Box 239, Lockhart, TX 78644

Recitals: Grantor and Grantee have entered into that one certain "Agreement Between the City of Lockhart, Texas, and Polonia Water Supply Corporation, Caldwell County, Texas" dated December ____, 2019, ("the Agreement") whereby Grantor, subject to receipt of approval by the Public Utility Commission of Texas, is transferring to Grantee a specific retail water service Certificate of Convenience and Necessity area, identified in said Agreement as the "Transfer Area," , including all "Water System Assets", being the facilities, personal property, and easements described therein and owned by Polonia within the Transfer Area.

This Bill of Sale and Assignment is identified in the Agreement as Exhibit "B" and is incorporated therein for all purposes.

Consideration: Ten Dollars (\$10.00) and other good and valuable consideration in hand paid by Grantee.

Property: All lines, pipes, and water works facilities owned by Grantor that are located in the Transfer Area, being the Water System Assets described in the Agreement.

Easements: See Exhibit "A" attached hereto and incorporated herein

Intangible Assets: See Exhibit "B" attached hereto and incorporated herein

Grantor, for the consideration herein expressed, has GRANTED, SOLD, ASSIGNED, TRANSFERRED AND SET OVER, and by these presents does hereby GRANT, SELL, ASSIGN, TRANSFER AND SET OVER unto Grantee, its successors and assigns, all of Assignor's now existing and hereafter arising right, title, interest in, to and under the Property, Intangible Assets, and Easements described above and on Exhibit "A" and Exhibit "B."


Representations and Warranties: Grantor conveys possession of the Water System Assets "as-is," "where-is," and "with all faults."

GRANTOR MAKES NO WARRANTY REGARDING THE WATER SYSTEM ASSETS AND RELATED EASEMENT RIGHTS, IF ANY, INCLUDING WITHOUT LIMITATION ANY WARRANTY OF HABITABILITY, SUITABILITY, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR ANY PURPOSE.

Grantor agrees to hereafter cooperate with Grantee and execute such other specific documents as may be necessary or appropriate to accomplish the transfers contemplated in the Agreement and this document.

Executed effective as of the date first written above.

GRANTOR: Polonia Water Supply Corporation

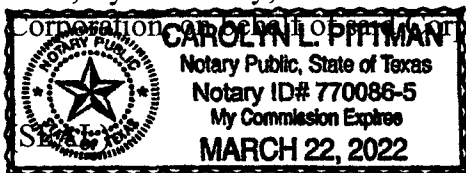

Joe Kelly, President

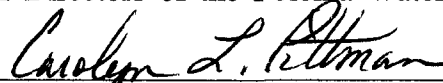
GRANTEE: City of Lockhart, Texas

Lew White, Mayor

THE STATE OF TEXAS §
COUNTY OF CALDWELL §

This instrument was acknowledged before me on the 17th day of December, 2019, by Joe Kelly, President of the Board of Directors of the Polonia Water Supply Corporation of the State of Texas.




Notary Public, State of Texas

THE STATE OF TEXAS §
COUNTY OF CALDWELL §

This instrument was acknowledged before me on the _____ day of _____, 2019, by Lew White, Mayor of the City of Lockhart, Texas, on behalf of said City.

Notary Public, State of Texas

(SEAL)

EXHIBIT "A"

To Bill of Sale and Assignment from Polonia Water Supply Corporation to the City of Lockhart

Right of Way Easement from Albert W. Livengood, III and Frances L. Livengood, as Grantors, to Polonia Water Supply Corporation as Grantee dated July 24,, 1971, regarding 150 acres in the C. Crenshaw Survey, recorded in 1971 at Volume 346 , Page 685 of the Deed Records of Caldwell County Texas

Right of Way Easement from Rudolph Balser and Betty Balser as Grantors to Polonia Water Supply Corporation as Grantee dated July 26, 1971, regarding 41.5 acres in the C. Crenshaw League, recorded in 1971 at Volume 346, Page 707 of the Deed Records of Caldwell County Texas

Right of Way Easement from Emil Willms, as Grantor to Polonia Water Supply Corporation as Grantee dated July 30, 1971, regarding 165 acres in the C. Crenshaw League, recorded in 1972 at Volume 352, Page 32 of the Deed Records of Caldwell County Texas

Right of Way Easement from Carl Waller, Jr. as Grantor to Polonia Water Supply Corporation as Grantee dated July 30, 1971, regarding 180 acres in the C. Crenshaw Survey, recorded in 1972 at Volume 352, Page 366 of the Deed Records of Caldwell County Texas

Right of Way Easement from W. H. Schroeder and Mrs. Margaret Schroeder as Grantors to Polonia Water Supply Corporation as Grantee dated July 31, 1971, regarding 151.5 acres in the Cornelius Crenshaw League, recorded in 1972 at Volume 352, Page 368 of the Deed Records of Caldwell County Texas

Right of Way Easement from Charles D. Spillman and Jane Spillman as Grantors to Polonia Water Supply Corporation as Grantee dated July 24, 1971, regarding 202.58 acres in the Cornelius Crenshaw Survey recorded in 1972 at Volume 352, Page 370 of the Deed Records of Caldwell County Texas

Right of Way Easement from Walter W. Cardwell and Margaret Ann Williams Cardwell as Grantors to Polonia Water Supply Corporation as Grantee dated August 25, 1971, regarding 120 acres in the C. Crenshaw and H.E. McCulloch Surveys, recorded in 1972 at Volume 352, Page 319 of the Deed Records of Caldwell County Texas

Right of Way Easement from A. B. Schafer and Marie Schafer as Grantors to Polonia Water Supply Corporation as Grantee dated August 7, 1971, regarding 145 acres in the C. Crenshaw League, & McFerrin Survey, recorded in 1972 at Volume 352, Page 372 of the Deed Records of Caldwell County Texas

Right of Way Easement from Edwin Ahlhard and Lina Ahlhard as Grantors to Polonia Water Supply Corporation as Grantee dated August 7, 1971, regarding 90 acres in the C. Crenshaw League, recorded in 1972 at Volume 352, Page 408 of the Deed Records of Caldwell County Texas

Right of Way Easement from Edwin Ahlhard and Lina Ahlhard as Grantors to Polonia Water Supply Corporation as Grantee dated August 7, 1971, regarding 14 acres in the Ira Bisbee Survey and 96 acres in the William Morrison 1/3 League, recorded in 1972 at Volume 352 , Page 406 of the Deed Records of Caldwell County Texas

Right of Way Easement from C. F. Richards and Kathaliene H. Richards as Grantors to Polonia Water Supply Corporation as Grantee dated July 30, 1971, regarding 62.5 acres in the E. Hines Survey, recorded in 1972 at Volume 352, Page 547 of the Deed Records of Caldwell County Texas

Right of Way Easement from C. F. Richards and Kathaliene H. Richards as Grantors to Polonia Water Supply Corporation as Grantee dated July 31, 1971, regarding 880 acres in the Cornelius Crenshaw League, recorded in 1972 at Volume 352, Page 549 of the Deed Records of Caldwell County Texas

EXHIBIT B

Description of Intangible Assets

1. All books, records, construction records, contract rights, bonds, bid documents, financial records, plans and specifications, surveys, records, maintenance records, regulatory records and correspondence, permits, certificates, soil reports, inspection reports, engineering reports and other property and rights of any kind related to the Property (as defined in Exhibit "A" to this Bill of Sale and Assignment);
2. All governmental licenses, approvals, authorizations, permits and similar approvals to the extent they relate to the Property;
3. All third party plans, studies, drawings, specifications, surveys, renderings and other technical descriptions to the extent (but only to the extent) they relate to the Property;
4. All contracts for the design and construction of the Property;
5. Any and all guaranties, indemnities, and warranties of any contractors, subcontractors, vendors, service contractors and suppliers involved in the construction, development, engineering and surveying associated with the Property, including without limitation, all rights and claims with respect thereto relating to quality, defects, and similar matters relating to the Property;
6. All service and management contracts relating to the Property;
7. All claims, causes of action, bonds, and similar rights to the extent (but only to the extent) they relate to the Property; and
8. Any other documents and instruments pertaining to the Property and any and all other ownership and use rights (intangible or otherwise) relating to the Property, and all rights, titles and interests appurtenant in any way to any of the foregoing, including any rights based on prescription or adverse possession.



Exhibit C
-Re-establish 3" water interconnection between Polonia WSC and Lockhart "South Connection"
-Polonia WSC responsible for connection to meter side of the interconnection

Legend
Re-established 3" Water Interconnection

Part B: Question 5

List of Customer Deposits

Note: Polonia Water Supply does not have deposits, they have \$100 membership fees. These will be returned to each customer at the time of the transfer

LONG CUSTOMER LIST

ACCOUNT #	ROUTE # NAME	BILLING ADDRESS			PHONE		OCCUPANTS		AVERAGES	
READ. SEQ. #	METER	TURN ON	TURN OFF	RATE	SERVICE ADDRESS	PUMP #	LATE MONTHS	L. LATE DAY	12 MONTH	OVERALL
25	4	HIDDEN PATH JV LLC	3571 FAR WEST BLVD # 243	AUSTIN	TX	78731	(512)995-0641	0		
4,720	11180409		1	270 Hidden Path		2	24	2/21/2019	17,383	9,199
36	4	MC CORMICK, JOHN	PO BOX 8	FENTRESS	TX	78622	(512)618-9395	0		
4,740	55999704		1	FM #2001		1	0	12/20/2016	3,733	5,511
37	4	MC CORMICK, JOHN	PO BOX 8	FENTRESS	TX	78622	(512)618-9395	0		
4,710	39229212		1	FM 2001		1	0	11/22/2005	0	0
90	4	SCHROEDER, JAMES	1312 ASPEN	LOCKHART	TX	78644	(512)398-2626	0		
4,830	34029481		1	F.M.2720		1	3	6/21/2019	0	9
105	4	CLOUGH, GERALD	1707 SILENT VALLEY RD	LOCKHART	TX	78644	(512)738-0244	0		
4,660	62854777		1	1707 FM 2001		1	22	1/19/2018	4,742	6,969
176	4	CABELLO, AMELIA	233 COUNTY VIEW RD	LOCKHART	TX	78644	(512)945-3663	0		
4,780	65481441		1	233 COUNTY VIEW RD		1	5	10/19/2018	7,342	4,444
210	4	CALDWELL COUNTY UNIPO BOX 98		LOCKHART	TX	78644	(512)398-7269	0		
4,810	65481442		1	COUNTY VIEW RD.		1	2	1/24/2011	3,858	4,620
242	4	HALLIBURTON, DEE	3600 FM 2001	LOCKHART	TX	78644	(512)376-9924	0		
4,760	62393260		1	3600 FM 2001		1	17	2/21/2011	5,325	7,735
243	4	HOHERTZ, BRYANT	2415 JOLLEY RD	MAXWELL	TX	78656	(512)376-2816	0		
4,840	68860251		1	2415 JOLLY RD		1	0	1/16/2019	9,350	4,101
271	4	TANNOS, JOSEPH	117 ROYAL DR	LEAGUE CITY	TX	77573	(281)332-8487	0		
4,730	52738584		1	FM 2001		1	0		0	0
322	4	NIEMANN, KENNETH	590 COUNTY VIEW RD	LOCKHART	TX	78644	(512)398-3610	0		
4,820	32254510		1	590 COUNTY VIEW RD		1	6	6/20/2019	2,350	1,813
358	4	CANNOP, MARY	351 COUNTY VIEW RD	LOCKHART	TX	78644	(512)376-6629	0		
4,790	33001281		1	351 COUNTY VIEW RD		1	3	3/20/2002	2,125	4,541
699	4	HITCHCOCK, BETTY	103 COUNTY VIEW RD	LOCKHART	TX	78644	(512)398-7261	0		
4,770	52738641		1	103 COUNTYVIEW RD		1	1	9/18/2019	2,800	5,373
710	4	WESTMORELAND, BJ	347 CYPRESS RD	LOCKHART	TX	78644	(512)376-1507	0		
4,860	68860369		1	347 CYPRESS RD		1	18	2/18/2019	15,675	6,625

Owner

1:48:53PM

LONG CUSTOMER LIST**POLONIA WATER SUPPLY CORP**

ACCOUNT #	ROUTE # NAME		BILLING ADDRESS		PHONE		OCCUPANTS		AVERAGES	
READ. SEQ. #	METER	TURN ON	TURN OFF	RATE	SERVICE ADDRESS	PUMP #	LATE MONTHS	L. LATE DAY	12 MONTH	OVERALL
1109	4	FOREMAN, WILLIAM		19 CYPRESS RD	LOCKHART	TX 78644	(512)644-9856	0		
4,850	32020118		1	19 CYPRESS RD		1	67	12/18/2015	9,208	7,979
1169	4	MURPHY, JOHN		1286 FM 2720	LOCKHART	TX 78644	(512)376-5203	0		
4,750	60727999		1	1286 FM 2720		1	2	4/18/2017	700	4,600
1229	4	CRABILL, KENNETH E		1805 SILENT VALLEY RD	LOCKHART	TX 78644	(512)914-2649	0		
4,680	65481438		1	1805 SILENT VALLEY RD.		1	4	6/21/2016	3,383	5,084
1272	4	HAMBY, STEVEN		403 COUNTY VIEW RD	LOCKHART	TX 78644	(512)971-0719	0		
4,800	65481447		1	403 COUNTY VIEW RD		1	0		3,258	6,392
1448	4	MC COMMAS, JACKIE		1747 FM 2001	LOCKHART	TX 78644	(512)749-6168	0		
4,670	52738498		1	1747 SILENT VALLEY RD		1	2	11/17/2018	4,558	5,173
1512	4	SPILLMAN, C D		1701 SILENT VALLEY RD	LOCKHART	TX 78644	(512)376-9623	0		
4,650	11180410		1	1389 FM 2001		2	0	1/16/2020	3,442	7,164
1519	4	CRABILL, KENNETH		1805 SILENT VALLEY RD	LOCKHART	TX 78644	(512)914-2649	0		
4,690	11180411		1	1805 SILENT VALLEY RD		2	4	6/21/2016	1,450	3,149
1824	4	DAVIS, PHILLIP		80 COUNTY VIEW RD	LOCKHART	TX 78644	(831)295-2073	0		
4,795	59025661	5/26/2006	1	80 COUNTY VIEW RD		1	25	10/19/2015	550	2,557
1832	4	VILLANUEVA, JOHNNY		1490 FM 2720	LOCKHART	TX 78644	(512)709-9973	0		
4,755	33001799		1	1490 FM 2720		1	15	8/16/2019	2,975	3,966
1846	4	AUSTIN 9 INVESTMENTS		2936 THOUSAND OAKS DR	AUSTIN	TX 78746	(512)738-0187	0		
4,705	65481440		1	1845 FM 2001		1	11	11/21/2011	0	818
3120	4	MENDOZA, BETTY		109 COUNTY VIEW	LOCKHART	TX 78644	(512)409-4612	0		
4,771	19099011	8/6/2019	1	109 COUNTY VIEW RD		2	0		2,100	1,750

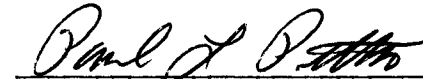
25 Accounts Listed

0 Total Occupants

Qualified By: Individual Accounts

Polonia Water Supply Corp.

The above listed customers have a \$100.00 membership fee



Paul Pittman

02/05/2020

Part C: Question 10

Financial Audit

Note: Last completed Financial Audit for the City of Lockhart

CITY OF LOCKHART, TEXAS

ANNUAL FINANCIAL REPORT

For the fiscal year ended September 30, 2018

CITY OF LOCKHART, TEXAS
ANNUAL FINANCIAL REPORT
For the year ended September 30, 2018

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CITY OF LOCKHART, TEXAS
ANNUAL FINANCIAL REPORT
For the year ended September 30, 2018

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

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

Mayor and Members of Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lockhart, 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 the 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 misstatements, 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. The financial statements of the Lockhart Economic Development Corporation were not audited in accordance with *Government Auditing Standards*. 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 organization'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.

The Honorable Mayor and Members
of the City Council

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City 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.

Emphasis of Matter

As discussed in Note 19 to the financial statements, in 2018 the City adopted new accounting guidance from Governmental Accounting Standards Board Statement No. 75 related to accounting for other post employment benefit plans. This resulted in a restatement of prior year balances. Our opinion is not modified with respect to this matter.

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 information, schedule of changes in net pension liability and related ratios, schedules of changes in total OPEB liability and related ratios, and the schedules of employer contributions, as listed in the table of contents, 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor and individual fund financial statements 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 nonmajor fund financial statements and the compliance schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Honorable Mayor and Members
of the City Council

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2019, on our consideration of the City'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.



HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

March 13, 2019

CITY OF LOCKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2018

As management of the City of Lockhart, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year ended September 30, 2018, by \$44,167,778. Of this amount, \$10,614,676 of unrestricted net position is available to meet the City's ongoing obligations to citizens and creditors.
- The total cost of all City activities was \$28,803,324 for the fiscal year which is an increase of \$699,367 from the prior year.
- During the year, the City's general revenues exceeded net expenses of all City activities by \$2,216,587. This represents a 5% increase in net position from the previous fiscal year as a result of operations.
- At September 30, 2018, the City's governmental funds reported combined ending fund balances of \$10,998,145, an increase of \$205,576 in comparison with the prior year.
- At September 30, 2018, unassigned fund balance for the General Fund was \$4,451,131 or 47% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) component unit financial statements, and 4) notes to financial statements.

Organization and Flow of Financial Section Information

Independent Auditors' Report

Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.

Pages 4 to 11

Government-wide Financial Statements

Provides information on governmental and business-type activities of the primary government.

Pages 12 to 15

Fund Financial Statements

Provides information on the financial position of specific funds of the primary governments.

Pages 16 to 31

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 32 to 70

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

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

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation, and interest on long-term debt. The business-type activities of the City include electric, water, wastewater, solid waste services, and an airport fund.

The government-wide financial statements include not only the City itself (known as the primary government) but also the component unit of Lockhart Economic Development Corporation, Inc.

Fund Financial Statements

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between government funds and governmental activities.

The City maintained numerous individual governmental funds during the 2017-2018 fiscal year. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the General Fund and 2015 Certificates of Obligation Fund which are considered major funds. Data from the nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Fund Financial Statements - (Continued)

The City adopts an annual appropriated budget for its General Fund and Debt Service Fund. A Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual, has been provided for the General Fund and Debt Service Fund to demonstrate compliance with this budget.

The City maintains only one type of *proprietary fund*. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its electric, water, wastewater utility services, EMS, solid waste operations, and the airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in a more detailed format. The City has four major proprietary funds. They are the Electric Fund, the Water Fund, the Wastewater Fund, and EMS Fund. Separate financial statements are presented for the major funds. Individual fund data for each of the nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs/operations. The accounting used for fiduciary funds is similar to proprietary funds.

The basic fiduciary fund financial statements can be found on pages 30 through 31 of this report.

Notes to Financial Statements

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

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$44,167,778 at the close of the 2018 fiscal year.

By far, the largest portion of the City's net position, 70%, reflects its investment in capital assets (i.e., land, buildings, infrastructure, and machinery and equipment), less a related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

City of Lockhart, Texas

Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017*	2018	2017*	2018	2017*
Current and other assets	\$ 12,185,125	\$ 11,892,770	\$ 20,613,045	\$ 20,238,321	\$ 32,798,170	\$ 32,131,091
Capital assets (net)	22,777,509	23,282,995	22,515,446	22,075,259	45,292,955	45,358,254
Total assets	34,962,634	35,175,765	43,128,491	42,313,580	78,091,125	77,489,345
Deferred outflow of resources	964,727	2,003,206	371,884	626,431	1,336,611	2,629,637
Current and other liabilities	1,447,457	1,491,546	2,224,344	2,939,323	3,671,801	4,430,869
Noncurrent liabilities	16,841,818	20,528,694	13,948,453	14,645,286	30,790,271	35,173,980
Total liabilities	18,289,275	22,020,240	16,172,797	17,584,609	34,462,072	39,604,849
Deferred inflow of resources	644,443	42,290	153,443	12,198	797,886	54,488
Net position:						
Net investment in capital assets	13,774,228	14,162,688	16,961,238	16,507,663	30,735,466	30,670,351
Restricted	1,396,101	1,141,195	1,421,535	1,163,687	2,817,636	2,304,882
Unrestricted	1,823,314	1,304,104	8,791,362	7,671,854	10,614,676	8,975,958
Total net position	\$ 16,993,643	\$ 16,607,987	\$ 27,174,135	\$ 25,343,204	\$ 44,167,778	\$ 41,951,191

*2017 net position has been restated. See Note 19 of this report.

An additional portion of the City's net position, 6%, represents resources that are subject to external restrictions on how they may be used (i.e., debt service). The remaining balance of unrestricted net position, \$10,614,676, may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for the primary government as a whole.

Governmental activities. Governmental activities increased the City's net position by \$385,656. Key elements of this increase are as follows:

- Increase in charges for services of \$592,691.
- Increase in property taxes of \$415,501.

Business-type activities. Business-type activities increased the City's net position by \$1,830,931 accounting for 83% of the total growth in the City's net position. Key elements of this increase are as follows:

- Charges for services were \$803,317 higher due to increase in demand.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

City of Lockhart, Texas

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017*	2018	2017*	2018	2017*
REVENUES						
Program revenues:						
Charges for services	\$ 1,690,569	\$ 1,097,878	\$ 21,133,352	\$ 20,330,035	\$ 22,823,921	\$ 21,427,913
Operating grants and contributions	566,039	202,393	24,925	7,016	590,964	209,409
Capital grants and contributions	278,000	-	-	195,261	278,000	195,261
General revenues:						
Property taxes	4,325,200	3,909,699	-	-	4,325,200	3,909,699
Sales taxes	1,650,931	1,549,695	-	-	1,650,931	1,549,695
Franchise taxes	357,278	312,433	-	-	357,278	312,433
Other taxes	106,756	96,529	-	-	106,756	96,529
Impact fees	-	-	244,561	83,585	244,561	83,585
Investment earnings	190,320	99,353	236,101	118,159	426,421	217,512
Miscellaneous	192,281	289,291	23,598	-	215,879	289,291
Total revenues	9,357,374	7,557,271	21,662,537	20,734,056	31,019,911	28,291,327
EXPENSES						
General government	2,045,364	2,083,166	-	-	2,045,364	2,083,166
Public safety	5,401,024	5,086,371	-	-	5,401,024	5,086,371
Public works	3,084,192	2,644,292	-	-	3,084,192	2,644,292
Health	16,326	22,137	-	-	16,326	22,137
Culture and recreation	1,077,697	1,006,038	-	-	1,077,697	1,006,038
Interest on long-term debt	441,769	459,629	-	-	441,769	459,629
Electric	-	-	9,132,038	8,722,211	9,132,038	8,722,211
Water	-	-	3,428,101	3,545,084	3,428,101	3,545,084
Wastewater	-	-	1,281,066	1,824,111	1,281,066	1,824,111
EMS	-	-	1,334,506	1,289,014	1,334,506	1,289,014
Sanitation	-	-	1,461,111	1,345,466	1,461,111	1,345,466
Airport	-	-	100,130	76,438	100,130	76,438
Total expenses	12,066,372	11,301,633	16,736,952	16,802,324	28,803,324	28,103,957
Change in net position before transfers	(2,708,998)	(3,744,362)	4,925,585	3,931,732	2,216,587	187,370
Transfers	3,094,654	2,896,410	(3,094,654)	(2,896,410)	-	-
Change in net position	385,656	(847,952)	1,830,931	1,035,322	2,216,587	187,370
Net position - beginning	16,607,987	17,455,939	25,343,204	24,307,882	41,951,191	41,763,821
Net position - ending	<u>\$ 16,993,643</u>	<u>\$ 16,607,987</u>	<u>\$ 27,174,135</u>	<u>\$ 25,343,204</u>	<u>\$ 44,167,778</u>	<u>\$ 41,951,191</u>

*2017 net position has been restated. See Note 19 of this report.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,998,145, an increase of \$205,576 from the prior year.

Approximately 40% of this total amount, \$4,451,131, constitutes unassigned fund balance, which is available for spending at the government's discretion. The City also has \$553,877 of fund balance that is committed for specific projects. In addition, there is \$5,940,939 of fund balance that is restricted for specific purposes and \$52,198 that is classified as nonspendable; being that it is not available for new spending because it has already been committed: 1) for prepaid expenditures \$40,635; and 2) for inventory \$11,563.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$4,451,131. Unassigned fund balance represents 47% of total General Fund expenditures. The fund balance of the City's General Fund increased by \$587,246 during the current fiscal year.

The primary reason for the increase in the governmental fund balance was due to the increase in the General Fund fund balance in the amount of \$587,246. This increase was mainly due to an increase in transfers from other funds during fiscal year 2018 of \$311,954 in comparison with the prior year.

Proprietary Funds

The City's proprietary funds, the Electric Fund, the Water Fund, the Wastewater Fund, the EMS Fund, the Sanitation Fund and the Airport Fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the proprietary funds at the end of the current fiscal year amounted to \$8,791,362. The total growth for the funds was \$1,830,931 as a result of an increase in charges for services and impact fees from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual fiscal year revenues in the General Fund were \$713,970 more than the final budgeted amounts. The positive variance over the anticipated amount is comprised of the following items:

- \$117,082 in property tax revenues.
- \$142,797 increase in sales and other tax revenues.
- \$111,448 and \$114,912 in intergovernmental and miscellaneous revenues

Actual fiscal year expenditures in the General Fund were \$636,273 less than the final budgeted amounts. The positive variance over the anticipated amount is comprised of the following items:

- \$536,918 in general government.
- \$247,793 in capital outlay.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities amounts to \$45,292,955 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, infrastructure, and construction in progress. The net decrease in the City's investment in capital assets was \$65,299 or 0.1%.

City of Lockhart, Texas

Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,587,394	\$ 1,488,954	\$ 574,710	\$ 574,710	\$ 2,162,104	\$ 2,063,664
Construction in progress	97,176	608,655	827,195	681,574	924,371	1,290,229
Bldgs. and improvements	7,581,373	7,667,359	1,421,243	1,462,927	9,002,616	9,130,286
Infrastructure	12,195,622	12,384,114	18,611,999	18,631,350	30,807,621	31,015,464
Machinery and equipment	1,315,944	1,133,913	1,080,299	724,698	2,396,243	1,858,611
Total	<u>\$ 22,777,509</u>	<u>\$ 23,282,995</u>	<u>\$ 22,515,446</u>	<u>\$ 22,075,259</u>	<u>\$ 45,292,955</u>	<u>\$ 45,358,254</u>

Additional information on the City's capital assets can be found in Note 6 of this report.

Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$24,478,829. Of this amount, \$6,530,000 represents General Obligation Tax and Revenue Bonds. The remainder of the City's bonded debt is comprised of \$16,800,000 of Combination Tax and Revenue Certificates of Obligation and unamortized premiums of \$1,148,829. The City's bonded debt had a net decrease of \$1,058,772 during the fiscal year ended September 30, 2018. Additional information on the long-term debt can be found in Note 10.

The City maintains a bond rating of "AA-" from Standard & Poor's.

As a Home Rule City, the City is not limited by law in the amount of debt it may issue; however, all new local bond issues must be approved by the State Attorney General.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Interest rates are remaining at higher levels and should result in interest earnings consistent with the 2018 fiscal year.
- The City continues to experience economic growth with the construction of new businesses in the retail and manufacturing sectors.

All of these factors were considered in preparing the City's budget for the 2018-2019 fiscal year.

The certified assessed taxable property valuations for the 2018 tax roll total \$666,616,058 with a tax rate of \$0.7107 per \$100 valuation. \$0.6031 was allocated for maintenance and operations, and \$0.1076 was allocated for interest and sinking (debt service). The projected total property tax due is \$4,608,371 for the 2018 tax year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 308 W. San Antonio Street, Lockhart, Texas 78644.

Basic Financial Statements

CITY OF LOCKHART, TEXAS
STATEMENT OF NET POSITION
September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Lockhart Economic Development Corporation
ASSETS				
Current assets				
Cash and cash equivalents	\$ 10,914,124	\$ 15,143,451	\$ 26,057,575	\$ 2,864,783
Receivables (net)	915,591	4,972,429	5,888,020	147,819
Due from other governments	295,638	-	295,638	-
Prepaid expenses	48,209	15,130	63,339	-
Inventory	11,563	482,035	493,598	325,000
Total current assets	<u>12,185,125</u>	<u>20,613,045</u>	<u>32,798,170</u>	<u>3,337,602</u>
Noncurrent assets (net)				
Capital assets	22,777,509	22,515,446	45,292,955	634,320
Total noncurrent assets	<u>22,777,509</u>	<u>22,515,446</u>	<u>45,292,955</u>	<u>634,320</u>
Total assets	<u>34,962,634</u>	<u>43,128,491</u>	<u>78,091,125</u>	<u>3,971,922</u>
DEFERRED OUTFLOWS				
Deferred amount on refunding	257,861	180,927	438,788	-
Deferred outflow related to pension	676,631	183,864	860,495	-
Deferred outflow related to OPEB	30,235	7,093	37,328	-
Total deferred outflow of resources	<u>964,727</u>	<u>371,884</u>	<u>1,336,611</u>	<u>-</u>

The accompanying notes are an integral part of this statement.

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Lockhart Economic Development Corporation
LIABILITIES				
Current liabilities				
Accounts payable	\$ 301,120	\$ 1,052,938	\$ 1,354,058	\$ 25,169
Payroll related payables	178,452	54,144	232,596	6,689
Other payables	6,651	-	6,651	-
Accrued interest payable	74,415	79,771	154,186	-
Due to other governments	40,092	87,641	127,733	-
Deposits	45,650	387,608	433,258	-
Unearned revenue	-	2,758	2,758	-
Accrued compensated absences	110,277	58,443	168,720	1,026
Current portion of long-term liabilities	690,800	501,041	1,191,841	19,040
Total current liabilities	<u>1,447,457</u>	<u>2,224,344</u>	<u>3,671,801</u>	<u>51,924</u>
Noncurrent liabilities				
Accrued compensated absences	330,829	-	330,829	-
Noncurrent portion of long-term liabilities	13,101,799	13,148,766	26,250,565	165,129
Net pension liability	2,767,021	649,055	3,416,076	-
OPEB liability	642,169	150,632	792,801	-
Total noncurrent liabilities	<u>16,841,818</u>	<u>13,948,453</u>	<u>30,790,271</u>	<u>165,129</u>
Total liabilities	<u>18,289,275</u>	<u>16,172,797</u>	<u>34,462,072</u>	<u>217,053</u>
DEFERRED INFLOWS				
Deferred inflow related to pension	<u>644,443</u>	<u>153,443</u>	<u>797,886</u>	-
Total deferred inflows	<u>644,443</u>	<u>153,443</u>	<u>797,886</u>	-
NET POSITION				
Net investment in capital assets	13,774,228	16,961,238	30,735,466	450,151
Restricted				
Debt service	224,528	225,926	450,454	-
Other purposes	1,171,573	1,195,609	2,367,182	-
Unrestricted	<u>1,823,314</u>	<u>8,791,362</u>	<u>10,614,676</u>	<u>3,304,718</u>
Total net position	<u>\$ 16,993,643</u>	<u>\$ 27,174,135</u>	<u>\$ 44,167,778</u>	<u>\$ 3,754,869</u>

CITY OF LOCKHART, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2018

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 2,045,364	\$ 223,254	\$ 66,976	\$ -
Public safety	5,401,024	1,005,749	483,068	-
Public works	3,084,192	423,575	-	-
Health	16,326	-	-	-
Culture and recreation	1,077,697	37,991	15,995	278,000
Interest on long-term debt	441,769	-	-	-
Total governmental activities	<u>12,066,372</u>	<u>1,690,569</u>	<u>566,039</u>	<u>278,000</u>
Business-type activities				
Electric	9,132,038	12,238,369	-	-
Water	3,428,101	3,336,689	-	-
Wastewater	1,281,066	2,339,875	-	-
EMS	1,334,506	1,438,174	4,385	-
Other	1,561,241	1,780,245	20,540	-
Total business-type activities	<u>16,736,952</u>	<u>21,133,352</u>	<u>24,925</u>	<u>-</u>
Total primary government	<u>\$ 28,803,324</u>	<u>\$ 22,823,921</u>	<u>\$ 590,964</u>	<u>\$ 278,000</u>
Component Unit				
Lockhart Economic Development Corporation	<u>\$ 724,030</u>	<u>\$ 73,125</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise taxes

Other taxes

Impact fees

Unrestricted investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning, as restated

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			Component Unit
Primary Government			
Governmental Activities	Business- type Activities	Total	Lockhart Economic Development Corporation
\$ (1,755,134)	\$ -	\$ (1,755,134)	\$ -
(3,912,207)	-	(3,912,207)	-
(2,660,617)	-	(2,660,617)	-
(16,326)	-	(16,326)	-
(745,711)	-	(745,711)	-
(441,769)	-	(441,769)	-
<u>(9,531,764)</u>	<u>-</u>	<u>(9,531,764)</u>	<u>-</u>
-	3,106,331	3,106,331	-
-	(91,412)	(91,412)	-
-	1,058,809	1,058,809	-
-	108,053	108,053	-
-	<u>239,544</u>	<u>239,544</u>	-
-	<u>4,421,325</u>	<u>4,421,325</u>	-
<u>(9,531,764)</u>	<u>4,421,325</u>	<u>(5,110,439)</u>	-
-	-	-	(650,905)
3,620,758	-	3,620,758	-
704,442	-	704,442	-
1,650,931	-	1,650,931	825,465
357,278	-	357,278	-
106,756	-	106,756	-
-	244,561	244,561	-
190,320	236,101	426,421	44,442
192,281	23,598	215,879	242
<u>3,094,654</u>	<u>(3,094,654)</u>	<u>-</u>	<u>-</u>
<u>9,917,420</u>	<u>(2,590,394)</u>	<u>7,327,026</u>	<u>870,149</u>
385,656	1,830,931	2,216,587	219,244
<u>16,607,987</u>	<u>25,343,204</u>	<u>41,951,191</u>	<u>3,535,625</u>
<u>\$ 16,993,643</u>	<u>\$ 27,174,135</u>	<u>\$ 44,167,778</u>	<u>\$ 3,754,869</u>

CITY OF LOCKHART, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2018

	<u>General</u>	<u>2015 Certificates of Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 5,015,612	\$ 4,239,670	\$ 1,658,842	\$ 10,914,124
Receivables (net)	720,571	-	195,020	915,591
Due from other funds	25,974	-	-	25,974
Due from other governments	295,638	-	-	295,638
Prepaid expenditures	37,870	-	10,339	48,209
Inventory	11,563	-	-	11,563
Total assets	<u>\$ 6,107,228</u>	<u>\$ 4,239,670</u>	<u>\$ 1,864,201</u>	<u>\$ 12,211,099</u>
LIABILITIES				
Accounts payable	\$ 287,031	\$ -	\$ 14,089	\$ 301,120
Payroll related payables	178,452	-	-	178,452
Other payables	6,651	-	-	6,651
Due to other funds	-	-	25,974	25,974
Due to other governments	40,092	-	-	40,092
Deposits	-	-	45,650	45,650
Total liabilities	<u>512,226</u>	<u>-</u>	<u>85,713</u>	<u>597,939</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	540,561	-	74,454	615,015
Total deferred inflows of resources	<u>540,561</u>	<u>-</u>	<u>74,454</u>	<u>615,015</u>
FUND BALANCES				
Nonspendable				
Prepaid expenditures	37,870	-	2,765	40,635
Inventory	11,563	-	-	11,563
Restricted				
General government	-	-	35,067	35,067
Tourism	-	-	2,721	2,721
Public safety	-	-	227,044	227,044
Public works	-	-	903,976	903,976
Debt service	-	-	240,674	240,674
Various capital projects	-	4,239,670	291,787	4,531,457
Committed				
Sidewalks	17,596	-	-	17,596
Revolving loan	263,827	-	-	263,827
Industrial park	272,454	-	-	272,454
Unassigned	4,451,131	-	-	4,451,131
Total fund balances	<u>5,054,441</u>	<u>4,239,670</u>	<u>1,704,034</u>	<u>10,998,145</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 6,107,228</u>	<u>\$ 4,239,670</u>	<u>\$ 1,864,201</u>	<u>\$ 12,211,099</u>

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION
OF GOVERNMENTAL ACTIVITIES***September 30, 2018*

Total governmental fund balances		\$ 10,998,145
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	\$ 96,743,677	
Accumulated depreciation of governmental capital assets	<u>(73,966,168)</u>	22,777,509
Property taxes receivable and other receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as "unavailable" in the funds.		
Property taxes	344,957	
Other charges for services	<u>270,058</u>	615,015
Deferred outflows of resources are not reported in the governmental funds:		
Deferred amount on refunding	257,861	
Deferred amount on pension	676,631	
Deferred amount on OPEB	<u>30,235</u>	964,727
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and certificates payable	(13,079,817)	
Bond premium	(712,782)	
Net pension liability	(2,767,021)	
OPEB liability	(642,169)	
Accrued interest payable	(74,415)	
Compensated absences	<u>(441,106)</u>	(17,717,310)
Deferred inflows of resources are not reported in the governmental funds:		
Deferred amount on pension		<u>(644,443)</u>
Net position of governmental activities		<u>\$ 16,993,643</u>

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS***For the year ended September 30, 2018*

	General	2015 Certificates of Obligation	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 3,642,474	\$ -	\$ 710,351	\$ 4,352,825
Sales and other taxes	2,013,845	-	101,120	2,114,965
Fines, fees and forfeitures	364,423	-	863,134	1,227,557
Licenses and permits	192,622	-	-	192,622
Intergovernmental and grants	323,298	-	135,326	458,624
Investment	89,701	68,082	32,537	190,320
Miscellaneous	263,684	-	59,612	323,296
Total revenues	<u>6,890,047</u>	<u>68,082</u>	<u>1,902,080</u>	<u>8,860,209</u>
EXPENDITURES				
Current				
General government	1,891,347	-	42,340	1,933,687
Public safety	4,978,250	-	234,269	5,212,519
Public works	1,593,994	-	133,411	1,727,405
Health and welfare	11,396	-	-	11,396
Culture and recreation	938,896	-	10,835	949,731
Capital outlay	126,365	626,882	75,625	828,872
Debt service				
Principal retirement	-	-	601,470	601,470
Interest and fiscal charges	-	-	483,207	483,207
Paying agent and issue costs	-	-	1,000	1,000
Total expenditures	<u>9,540,248</u>	<u>626,882</u>	<u>1,582,157</u>	<u>11,749,287</u>
Excess (deficiency) of revenues over expenditures	(2,650,201)	(558,800)	319,923	(2,889,078)
OTHER FINANCING SOURCES (USES)				
Transfers in	3,333,060	-	355,540	3,688,600
Transfers out	(95,613)	-	(498,333)	(593,946)
Total other financing sources	<u>3,237,447</u>	<u>-</u>	<u>(142,793)</u>	<u>3,094,654</u>
Net change in fund balances	587,246	(558,800)	177,130	205,576
Fund balances - beginning, as restated	<u>4,467,195</u>	<u>4,798,470</u>	<u>1,526,904</u>	<u>10,792,569</u>
Fund balances - ending	<u>\$ 5,054,441</u>	<u>\$ 4,239,670</u>	<u>\$ 1,704,034</u>	<u>\$ 10,998,145</u>

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended September 30, 2018

Total net change in fund balances - governmental funds		\$	205,576
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>			
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
Increase in capital assets	\$ 1,343,939		
Depreciation expense	<u>(2,127,425)</u>	(783,486)	
The net effect of various transactions involving capital assets (i.e., transfers, contributions, adjustments and dispositions) is to increase (decrease) net position.			278,000
Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:			
Bond principal retirement			601,470
Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.			
Property taxes	(49,026)		
Other revenues	<u>268,190</u>	219,164	
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:			
Increase in compensated absences	(13,350)		
Decrease in bond premium	61,511		
Decrease in loss on bond refunding	(23,443)		
Decrease in accrued interest	4,370		
Net pension costs	(134,268)		
Net OPEB costs	<u>(29,888)</u>	<u>(135,068)</u>	
Change in net position of governmental activities		\$	<u>385,656</u>

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2018

	Business-type Activities		
	Electric	Water	Wastewater
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,319,715	\$ 9,318,180	\$ 2,335,895
Receivables (net)			
Customer accounts	2,066,764	535,443	343,442
Other	-	-	229,279
Prepaid expenses	14,981	-	149
Inventory	482,035	-	-
Total current assets	<u>4,883,495</u>	<u>9,853,623</u>	<u>2,908,765</u>
Noncurrent assets			
Capital assets (net)			
Land and other assets not being depreciated	448,247	620,260	140,828
Buildings, improvements, and equipment (net)	<u>2,828,650</u>	<u>10,041,922</u>	<u>6,380,052</u>
Total noncurrent assets	<u>3,276,897</u>	<u>10,662,182</u>	<u>6,520,880</u>
Total assets	<u>8,160,392</u>	<u>20,515,805</u>	<u>9,429,645</u>
DEFERRED OUTFLOWS			
Deferred amount on refunding	-	156,846	24,081
Deferred outflow related to pension	113,740	15,564	38,199
Deferred outflow related to OPEB	<u>4,106</u>	<u>1,493</u>	<u>747</u>
Total deferred outflow of resources	<u>117,846</u>	<u>173,903</u>	<u>63,027</u>

The accompanying notes are an integral part of this statement.

Business-type Activities		
EMS	Other Funds	Total
\$ 571,668	\$ 597,993	\$ 15,143,451
1,538,111	259,390	4,743,150
-	-	229,279
-	-	15,130
-	-	482,035
<u>2,109,779</u>	<u>857,383</u>	<u>20,613,045</u>
-	192,570	1,401,905
<u>405,376</u>	<u>1,457,541</u>	<u>21,113,541</u>
<u>405,376</u>	<u>1,650,111</u>	<u>22,515,446</u>
<u>2,515,155</u>	<u>2,507,494</u>	<u>43,128,491</u>
-	-	180,927
-	16,361	183,864
-	747	7,093
<u>-</u>	<u>17,108</u>	<u>371,884</u>

(continued)

CITY OF LOCKHART, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2018

	Business-type Activities		
	Electric	Water	Wastewater
LIABILITIES			
Current liabilities			
Accounts payable	\$ 571,698	\$ 208,169	\$ 64,401
Payroll related payables	32,023	10,194	6,707
Accrued interest payable	6,939	60,276	12,556
Due to other governments	87,641	-	-
Customer deposits	266,513	114,070	-
Unearned revenue	-	-	-
Accrued compensated absences	41,225	6,207	5,865
Current portion of long-term obligations			
Capital leases	-	-	-
Bonds, certificates and notes	49,128	353,152	81,369
Total current liabilities	<u>1,055,167</u>	<u>752,068</u>	<u>170,898</u>
Noncurrent liabilities			
Net pension liability	375,768	136,643	68,322
OPEB liability	87,208	31,712	15,856
Noncurrent portion of long-term obligations	831,822	10,412,727	1,817,259
Total noncurrent liabilities	<u>1,294,798</u>	<u>10,581,082</u>	<u>1,901,437</u>
Total liabilities	<u>2,349,965</u>	<u>11,333,150</u>	<u>2,072,335</u>
DEFERRED INFLOWS			
Deferred inflow related to pension	88,484	31,401	18,347
Total deferred inflows	<u>88,484</u>	<u>31,401</u>	<u>18,347</u>
NET POSITION			
Net investment in capital assets	2,395,947	7,759,174	4,854,980
Restricted	167,997	730,406	523,132
Unrestricted	3,275,845	835,577	2,023,878
Total net position	<u>\$ 5,839,789</u>	<u>\$ 9,325,157</u>	<u>\$ 7,401,990</u>

The accompanying notes are an integral part of this statement.

Business-type Activities		
EMS	Other Funds	Total
\$ 111,300	\$ 97,370	\$ 1,052,938
-	5,220	54,144
-	-	79,771
-	-	87,641
-	7,025	387,608
-	2,758	2,758
-	5,146	58,443
17,392	-	17,392
-	-	483,649
<u>128,692</u>	<u>117,519</u>	<u>2,224,344</u>
-	68,322	649,055
-	15,856	150,632
<u>86,958</u>	<u>-</u>	<u>13,148,766</u>
<u>86,958</u>	<u>84,178</u>	<u>13,948,453</u>
<u>215,650</u>	<u>201,697</u>	<u>16,172,797</u>
-	15,211	153,443
-	15,211	153,443
301,026	1,650,111	16,961,238
-	-	1,421,535
<u>1,998,479</u>	<u>657,583</u>	<u>8,791,362</u>
<u>\$ 2,299,505</u>	<u>\$ 2,307,694</u>	<u>\$ 27,174,135</u>

(concluded)

CITY OF LOCKHART, TEXAS**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION****PROPRIETARY FUNDS***For the year ended September 30, 2018*

	Business-type Activities		
	Electric	Water	Wastewater
OPERATING REVENUES			
Charges for services	\$ 12,158,889	\$ 3,226,960	\$ 2,339,875
Miscellaneous	79,480	109,729	-
Total operating revenues	<u>12,238,369</u>	<u>3,336,689</u>	<u>2,339,875</u>
OPERATING EXPENSES			
Personnel services	1,090,324	357,625	278,526
Contracts and services	187,182	26,789	29,362
Materials and supplies	54,625	33,959	16,071
Maintenance and repairs	182,359	236,678	187,080
Power, water, and water treatment	7,206,538	1,909,180	478,675
Depreciation	316,610	514,924	235,057
Miscellaneous	71,556	5,937	898
Total operating expenses	<u>9,109,194</u>	<u>3,085,092</u>	<u>1,225,669</u>
Operating income (loss) before nonoperating revenues (expenses) and transfers	3,129,175	251,597	1,114,206
NONOPERATING REVENUES (EXPENSES)			
Investment income	36,660	151,465	32,981
Impact fees	-	134,272	110,289
Gain (loss) on disposition of capital assets	19,285	436	367
Noncapital grants and contributions	-	-	-
Interest expense	(22,844)	(343,009)	(55,397)
Net nonoperating revenues (expenses)	<u>33,101</u>	<u>(56,836)</u>	<u>88,240</u>
Income before transfers	3,162,276	194,761	1,202,446
Transfers			
Transfers out	(2,194,242)	(58,448)	(589,373)
Total transfers	<u>(2,194,242)</u>	<u>(58,448)</u>	<u>(589,373)</u>
Change in net position	968,034	136,313	613,073
Net position - beginning, as restated	<u>4,871,755</u>	<u>9,188,844</u>	<u>6,788,917</u>
Net position - ending	<u>\$ 5,839,789</u>	<u>\$ 9,325,157</u>	<u>\$ 7,401,990</u>

The accompanying notes are an integral part of this statement.

Business-type Activities		
EMS	Other Funds	Total
\$ 1,327,600	\$ 1,760,302	\$ 20,813,626
110,574	19,943	319,726
<u>1,438,174</u>	<u>1,780,245</u>	<u>21,133,352</u>
-	230,755	1,957,230
1,205,276	1,227,126	2,675,735
181	8,332	113,168
13,050	31,733	650,900
-	-	9,594,393
115,999	62,004	1,244,594
-	1,291	79,682
<u>1,334,506</u>	<u>1,561,241</u>	<u>16,315,702</u>
103,668	219,004	4,817,650
5,848	9,147	236,101
-	-	244,561
-	3,510	23,598
4,385	20,540	24,925
-	-	(421,250)
<u>10,233</u>	<u>33,197</u>	<u>107,935</u>
113,901	252,201	4,925,585
-	(252,591)	(3,094,654)
-	(252,591)	(3,094,654)
113,901	(390)	1,830,931
<u>2,185,604</u>	<u>2,308,084</u>	<u>25,343,204</u>
<u>\$ 2,299,505</u>	<u>\$ 2,307,694</u>	<u>\$ 27,174,135</u>

CITY OF LOCKHART, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2018

	Business-type Activities		
	Electric	Water	Wastewater
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 12,103,809	\$ 3,278,712	\$ 2,331,976
Cash payments to suppliers for goods and services	(7,997,083)	(2,232,430)	(1,007,094)
Cash payments to employees for services	(1,006,765)	(336,124)	(253,048)
Net cash provided by operating activities	<u>3,099,961</u>	<u>710,158</u>	<u>1,071,834</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Increase (decrease) in customer deposits	15,488	20,525	-
Noncapital grants and contributions	-	-	-
Impact fees received	-	134,272	110,589
Transfers out to other funds	(2,194,242)	(58,448)	(589,373)
Net cash used by noncapital financing activities	<u>(2,178,754)</u>	<u>96,349</u>	<u>(478,784)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Acquisition of capital assets	(668,058)	(611,582)	(274,937)
Proceeds from sale of capital assets	19,285	436	367
Contractual settlement received	-	253,469	-
Principal paid on capital debt	(177,693)	(475,367)	(85,968)
Interest paid on capital debt	(25,692)	(362,273)	(57,302)
Net cash used by capital financing activities	<u>(852,158)</u>	<u>(1,195,317)</u>	<u>(417,840)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	36,660	151,465	32,981
Net cash provided (used) by investing activities	<u>36,660</u>	<u>151,465</u>	<u>32,981</u>
Net increase (decrease) in cash and cash equivalents	105,709	(237,345)	208,191
Cash and cash equivalents at beginning of year	2,214,006	9,555,525	2,127,704
Cash and cash equivalents at end of year	<u>\$ 2,319,715</u>	<u>\$ 9,318,180</u>	<u>\$ 2,335,895</u>

The accompanying notes are an integral part of this statement.

Business-type Activities		
EMS	Other Funds	Total
\$ 1,327,848	\$ 1,758,373	\$ 20,800,718
(1,205,823)	(1,263,946)	(13,706,376)
-	(216,677)	(1,812,614)
<u>122,025</u>	<u>277,750</u>	<u>5,281,728</u>
-	25	36,038
4,385	20,540	24,925
-	-	244,861
-	(252,591)	(3,094,654)
<u>4,385</u>	<u>(232,026)</u>	<u>(2,788,830)</u>
-	(22,570)	(1,577,147)
-	3,510	23,598
-	-	253,469
(17,392)	-	(756,420)
-	-	(445,267)
<u>(17,392)</u>	<u>(19,060)</u>	<u>(2,501,767)</u>
<u>5,848</u>	<u>9,147</u>	<u>236,101</u>
<u>5,848</u>	<u>9,147</u>	<u>236,101</u>
114,866	35,811	227,232
<u>456,802</u>	<u>562,182</u>	<u>14,916,219</u>
<u>\$ 571,668</u>	<u>\$ 597,993</u>	<u>\$ 15,143,451</u>

(continued)

CITY OF LOCKHART, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2018

	Business-type Activities		
	Electric	Water	Wastewater
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 3,129,175	\$ 251,597	\$ 1,114,206
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	316,610	514,924	235,057
Change in assets and liabilities:			
(Increase) decrease in receivables	(134,560)	(57,977)	8,646
(Increase) decrease in prepaid expenses	(14,981)	-	(149)
(Increase) decrease in inventory	(70,892)	-	-
(Increase) decrease in deferred outflow related to pension	140,779	51,193	25,596
(Increase) decrease in deferred outflow related to OPEB	(2,935)	(1,067)	(534)
Increase (decrease) in accounts payable	(203,572)	(19,887)	(311,404)
Increase (decrease) in payroll related payables	10,204	3,239	1,401
Increase (decrease) in due to other governments	(5,378)	-	-
Increase (decrease) in unearned revenue	-	-	-
Increase (decrease) in accrued compensated absences	8,827	(5,203)	(1,466)
Increase (decrease) in net pension liability	(204,320)	(74,298)	(37,148)
Increase (decrease) in OPEB liability	49,230	17,902	22,761
Increase (decrease) in deferred inflow related to pension	81,774	29,735	14,868
Net cash provided by operating activities	\$ 3,099,961	\$ 710,158	\$ 1,071,834

The accompanying notes are an integral part of this statement.

Business-type Activities		
EMS	Other Funds	Total
\$ 103,668	\$ 219,004	\$ 4,817,650
115,999	62,004	1,244,594
(110,326)	(20,722)	(314,939)
-	-	(15,130)
-	-	(70,892)
-	25,596	243,164
-	(534)	(5,070)
12,684	4,536	(517,643)
-	1,054	15,898
-	-	(5,378)
-	(1,150)	(1,150)
-	1,291	3,449
-	(37,148)	(352,914)
-	8,951	98,844
-	14,868	141,245
<u>\$ 122,025</u>	<u>\$ 277,750</u>	<u>\$ 5,281,728</u>

(concluded)

CITY OF LOCKHART, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
September 30, 2018

	Private Purpose Trust	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 1,739	\$ 20,304
Total assets	<u>1,739</u>	<u>\$ 20,304</u>
LIABILITIES		
Due to others	-	\$ 20,304
Total liabilities	<u>-</u>	<u>\$ 20,304</u>
NET POSITION		
Held for various purposes	<u>\$ 1,739</u>	

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION****FIDUCIARY FUNDS***For the year ended September 30, 2018*

	Private Purpose Trust
	<hr/>
ADDITIONS	
Investment income	\$ 27
Total additions	<hr/> 27
DEDUCTIONS	
	<hr/>
Change in net position	27
Net position - beginning	<hr/> 1,712
Net position - ending	<hr/> \$ 1,739

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lockhart, Texas (the "City") is a municipal corporation operating under a home rule charter as authorized in Article XI, Section 5 of the Constitution of the State of Texas. The City operates under a Council-Manager form of government in which all powers of the City are vested in an elective council. The City Council consists of the mayor and six council members. The mayor and two council members are elected at large with the remaining council members elected by district. The City provides services related to the following: public safety, public works, sanitation, health and welfare, culture and recreation, economic development, planning and zoning, and general administrative services.

A. Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including legally separate organizations as component units within the City's reporting entity are set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

The Lockhart Economic Development Corporation (LEDC) is a nonprofit corporation that was incorporated under the Development Corporation Act of 1979, Texas Revised Civil Statutes Annotated, Article 5190.6 Section (a), to receive and account for the proceeds of a designated sales tax levied to benefit the economic development of Lockhart. The LEDC meets the criteria of a discretely presented component unit and is presented as a governmental fund type. Complete financial statements for the Lockhart Economic Development Corporation may be obtained at City Hall. No other organizations met the necessary criteria for inclusion as component units for the year ended September 30, 2018.

This component unit is discretely presented in the financial statements. Complete financial statements of the individual component unit can be obtained from the Office of the Finance Director, 308 W. San Antonio Street, Lockhart, Texas 78644.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's main operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 2015 Certificates of Obligation Fund accounts for the proceeds received and expenditures incurred related to the City's issuance of certificates of obligation in 2015. The proceeds from this issue will be used to fund various projects, the majority of which relate to infrastructure improvements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

The City reports the following major enterprise (proprietary) funds:

The Electric Fund accounts for the activities of the City related to its provision of electricity.

The Water Fund is used to account for the establishment and maintenance of water facilities within the municipal boundaries of the City.

The Wastewater Fund is used to account for the establishment and maintenance of sewage and drainage facilities within the municipal boundaries of the City.

The Emergency Medical Services Fund (EMS) is used to account for the activities related to providing ambulance services for the City.

Additionally, the City reports the following fund types:

Special Revenue Funds - Funds of this type account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund - This fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the governmental funds.

Capital Projects Funds - These funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Separate financial statements are provided for governmental funds, proprietary funds, discretely presented component units, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Private Purpose Trust Funds - These funds are used to account for resources legally held in trust for use by organizations that are separate from the City. All resources of these funds, including any earnings on invested resources, may be used to support the organizations' activities. There is no requirement that any portion of these resources be preserved as capital.

Agency Funds - These funds are custodial in nature and are used to account for the receipt, temporary investment, and remittance of resources to third parties. Because of the nature of these funds, they do not present results of operations or have a measurement focus.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and used between various City functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets and Budgetary Accounting

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The Water Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost connecting new customers to the water system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 they are needed.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Between 60 and 90 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1st. The operating budget includes proposed expenditures and the means of financing them. A budget is prepared for the City's General Fund and Debt Service Fund.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is adopted by City Council through the passage of an ordinance no later than the beginning of each fiscal year, or as soon thereafter as is practical.
4. No funds may be expended or encumbered which will exceed appropriations; however, the City Manager is authorized to transfer budgeted amounts within and among departments of individual funds in amounts not to exceed \$5,000. Any revisions that alter the total expenditures/expenses of any fund must be approved by the City Council.
5. The budgets for the City's governmental funds are prepared in accordance with the basis of accounting utilized by those funds. The budgets for the enterprise funds are adopted under a basis consistent with generally accepted accounting principles (GAAP), except that depreciation, certain capital expenses, nonoperating income, and expense items are not considered.
6. Formal budgetary integration is employed as a management control device during the year for all governmental funds and proprietary funds.
7. All appropriations lapse at year-end.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995. The investments of the City are in compliance with the City Council's investment policies.

Investments for the City, as well as the component unit, are recorded at amortized cost, which as of September 30, 2018, approximates fair value. Because the fair value of the City's investments did not materially differ from cost, no adjustments were made to the City's reporting amounts. See Note 3 for further discussion.

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All receivables are reported net of an applicable allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 4.5% of outstanding property taxes at September 30, 2018.

The Caldwell County Appraisal District bills and collects property taxes for the City. These taxes are levied on October 1st of each year and are payable by the following January 31st, at which time penalties and interest charges are assessed on unpaid balances. An enforceable lien on property is attached on all ad valorem taxes unpaid as of January 1st following the year of levy.

G. Inventories and Prepaid Items

All inventories are valued at the lower of cost or market on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures in both government-wide and fund financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**H. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives of assets are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no construction period interest expense was capitalized by the City's enterprise funds.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	10-50
Public Domain Infrastructure	10-40
Utility System Infrastructure	30-50
Machinery and Equipment	5-10

I. Compensated Absences

Vested or accumulated vacation and sick pay that is expected to be liquidated with expendable available resources is reported as an expenditure and fund liability of the governmental fund that will pay for it. Amounts of vested or accumulated vacation and sick pay that are not expected to be liquidated with expendable available financial resources are reported in the government wide financial statements. Vested or accumulated vacation and sick pay of the enterprise funds are recorded as an expense and liability of that fund as the benefits accrue to employees. The General Fund is the governmental fund that has typically been used in prior years to liquidate the liability for compensated absences.

J. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums, discounts, and losses on refunding are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable deferred amounts.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Deferred Outflows/Inflows of Resources

The statement of net position reports a separate section for deferred outflows of resources which follows the asset section. 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. The City has three items that qualify for reporting in this category. One is the deferred amount on refunding reported in the government-wide statement of net position. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is the deferred amount calculated in the actuarial pension study required by GASB Statement No. 68 "*Accounting and Financial Reporting for Pensions*" (GASB No. 68) and the current year pension payments reported in the government-wide statement of net position. The third item is the deferred amount calculated in the actuarial OPEB study required by GASB Statement No. 75 "*Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions (OPEB)*" (GASB No. 75) and the current year OPEB payments reported in the government-wide statement of net position.

In addition to liabilities, the statement of net position also reports 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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that are considered deferred inflows of resources. One of the items arises only under a modified accrual basis of accounting and this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from a variety of sources and are further defined in Note 4. The other item that qualifies for reporting as a deferred inflow of resources is calculated in the actuarial pension study required by GASB No. 68. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

L. 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. Information regarding the City's pension liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company (GRS), in compliance with GASB No. 68.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Fund Balance Policies

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory or prepaid items) because they are either not in spendable form, or legally or contractually required to be maintained in-tact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the General Fund.

Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include non-spendable resources and amounts that are restricted, committed, assigned, or any combination of those classifications. In addition, the General Fund may also include an unassigned amount.

Commitments will only be used for specific purposes pursuant to a formal action (ordinance) of the City Council. The action to commit funds must occur prior to fiscal year-end, to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. A two-thirds majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

N. Net Position Flow Assumptions

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

O. Minimum Fund Balance Policy

The City will maintain a minimum unassigned fund balance in its General Fund of 25 percent of the subsequent year's budgeted expenditures and outgoing transfers. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment. When fund balance falls below the 25 percent range, the City will replenish shortages/deficiencies. Should unassigned fund balance of the General Fund ever exceed the maximum 25 percent range, the City will consider such fund balance surpluses for one-time expenditures that are nonrecurring in nature and which will not require additional future expense outlays for maintenance, additional staffing or other recurring expenditures.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**P. Use of Estimates**

The preparation of the government-wide and fund financial statements in conformity with GAAP requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Budgetary Compliance**

Budgetary compliance is monitored at the departmental level in the General Fund and at the fund level in the Debt Service Fund. There were several situations of expenditures (General Fund at the function level) exceeding the amount appropriated during the fiscal year 2017-2018.

<u>Fund/Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Public Safety	\$ 4,908,827	\$ 4,978,250	\$ (69,423)
Public Works	1,491,447	1,593,994	(102,547)
Health and welfare	10,682	11,396	(714)
Debt Service Fund	1,085,477	1,085,677	(200)

These over expenditures were funded by available fund balances in the respective funds.

NOTE 3: DEPOSITS AND INVESTMENTS

As of September 30, 2018, the City had the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pools		
TexPool	\$ 8,443,437	28
MBIA Texas CLASS	11,001,064	52
TexStar	8,170,873	30
Total	<u>\$ 27,615,374</u>	

As previously discussed in Note 1, the investments are reported in the accompanying statements at amortized cost.

A. Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments in non-operating funds to less than five years from the time of purchase. The weighted average maturity of investments of the City's operating funds cannot exceed one year from the time of purchase. TexPool's weighted average maturity cannot exceed 60 days.

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)**B. Credit Risk**

It is the City's policy to limit its investments to those with ratings of not less than A or its equivalent. The City's investments in the public funds investment pools include those with TexPool, MBIA Texas CLASS and TexStar. The pools operate in full compliance with the Public Funds Investment Act. TexPool, MBIA Texas CLASS and TexStar are rated AAAM by Standard & Poor's.

C. Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the City was not exposed to concentration of credit risk.

D. Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized. The City's deposits are therefore not subject to custodial credit risk at September 30, 2018.

E. Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2018, and for the year then ended, the City was not exposed to any custodial credit risk.

Please see Note 19 for discussions relative to the investments of the City's component unit.

NOTE 4: RECEIVABLES

Receivables as of year-end for the City's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Electric	Water	Wastewater	EMS	Nonmajor Bus.-type Funds	Nonmajor Govt. Funds	Total
Receivables:								
Ad valorem taxes	\$ 341,349	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,382	\$ 410,731
Franchise taxes	66,902	-	-	-	-	-	6,238	73,140
Municipal crt fines	1,450,367	-	-	-	-	-	95,198	1,545,565
Accounts	-	2,117,820	557,938	356,417	3,756,024	269,338	-	7,057,537
Occupancy taxes	-	-	-	-	-	-	20,038	20,038
Other	263,389	-	-	229,279	-	-	98,247	590,915
Gross receivables	2,122,007	2,117,820	557,938	585,696	3,756,024	269,338	289,103	9,697,926
Less: Allowance for uncollectibles	(1,401,436)	(51,056)	(22,495)	(12,975)	(2,217,913)	(9,948)	(94,083)	(3,809,906)
Net total receivables	\$ 720,571	\$ 2,066,764	\$ 535,443	\$ 572,721	\$ 1,538,111	\$ 259,390	\$ 195,020	\$ 5,888,020

NOTE 4: RECEIVABLES - (Continued)

The City is permitted by a local charter to levy taxes up to limits set by the Constitution and laws of the State of Texas. Currently, the State of Texas does not set limits on the rate at which ad valorem taxes may be assessed. The combined tax rate for the year ended September 30, 2018, was \$0.7260 per \$100 of assessed valuation. Property taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on October 1st and payable by the following January 31st, which comprises the collection dates for the current tax roll.

The City's governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). The governmental funds may also defer revenue recognition in connection with resources that have been received, but not yet recognizable (unearned). At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 286,688	\$ -	\$ 286,688
Charges for services	253,873	-	253,873
Nonmajor Funds			
Ad valorem taxes	58,269	-	58,269
Charges for services	16,185	-	16,185
	<u>\$ 615,015</u>	<u>\$ -</u>	<u>\$ 615,015</u>

NOTE 5: DUE FROM OTHER GOVERNMENTS

The City reported amounts due from other governments as of the end of the current fiscal year. These amounts are comprised of the following at September 30, 2018:

	<u>General</u>
Sales taxes	<u>\$ 295,638</u>
	<u>\$ 295,638</u>

NOTE 6: CAPITAL ASSETS

The capital asset activity of the City was as follows for the year ended September 30, 2018:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 1,488,954	\$ 98,440	\$ -	\$ 1,587,394
Construction in progress	608,655	896,683	1,408,162	97,176
Total capital assets not being depreciated	<u>2,097,609</u>	<u>995,123</u>	<u>1,408,162</u>	<u>1,684,570</u>
Capital assets, being depreciated				
Machinery and equipment	6,344,338	447,256	307,885	6,483,709
Buildings	11,788,939	179,560	-	11,968,499
Infrastructure	75,198,737	1,408,162	-	76,606,899
Total capital assets being depreciated	<u>93,332,014</u>	<u>2,034,978</u>	<u>307,885</u>	<u>95,059,107</u>
Less accumulated depreciation for				
Machinery and equipment	5,210,425	265,225	307,885	5,167,765
Buildings	4,121,580	265,546	-	4,387,126
Infrastructure	62,814,623	1,596,654	-	64,411,277
Total accumulated depreciation	<u>72,146,628</u>	<u>2,127,425</u>	<u>307,885</u>	<u>73,966,168</u>
Total capital assets being depreciated, net	<u>21,185,386</u>	<u>(92,447)</u>	<u>-</u>	<u>21,092,939</u>
Governmental activities capital assets, net	<u>\$ 23,282,995</u>	<u>\$ 902,676</u>	<u>\$ 1,408,162</u>	<u>\$ 22,777,509</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 574,710	\$ -	\$ -	\$ 574,710
Construction in progress	681,574	524,526	378,905	827,195
Total capital assets not being depreciated	<u>1,256,284</u>	<u>524,526</u>	<u>378,905</u>	<u>1,401,905</u>
Capital assets, being depreciated				
Machinery and equipment	6,141,196	662,343	197,904	6,605,635
Buildings and improvements	4,500,538	-	-	4,500,538
Infrastructure	37,799,767	876,817	-	38,676,584
Total capital assets being depreciated	<u>48,441,501</u>	<u>1,539,160</u>	<u>197,904</u>	<u>49,782,757</u>
Less accumulated depreciation for				
Machinery and equipment	5,416,498	306,742	197,904	5,525,336
Buildings and improvements	3,037,611	41,684	-	3,079,295
Infrastructure	19,168,417	896,168	-	20,064,585
Total accumulated depreciation	<u>27,622,526</u>	<u>1,244,594</u>	<u>197,904</u>	<u>28,669,216</u>
Total capital assets being depreciated, net	<u>20,818,975</u>	<u>294,566</u>	<u>-</u>	<u>21,113,541</u>
Business-type activities capital assets, net	<u>\$ 22,075,259</u>	<u>\$ 819,092</u>	<u>\$ 378,905</u>	<u>\$ 22,515,446</u>

NOTE 6: CAPITAL ASSETS - (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities

General government	\$ 105,051
Public safety	229,478
Public works	1,678,430
Health	4,930
Parks and recreation	<u>109,536</u>

Total depreciation expense - governmental activities	<u>\$ 2,127,425</u>
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Business-type activities

Electric	\$ 316,610
Water	514,924
Wastewater	235,057
EMS	115,999
Solid Waste	9,186
Airport	<u>52,818</u>

Total depreciation expense - business-type activities	<u>\$ 1,244,594</u>
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NOTE 7: DEFINED BENEFIT PENSION PLANPlan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the 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 TMRS 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 payment 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.

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)**Benefits Provided** - (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 of the City for plan year 2018 were as follows:

Employee deposit rate	6.0%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100.0 repeating
Annuity increase (to retirees)	70.0% of CPI

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

Inactive employees or beneficiaries currently receiving benefits	75
Inactive employees entitled to but not yet receiving benefits	107
Active employees	<u>134</u>
	<u>316</u>

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 were required to contribute 6.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.06% and 13.21% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2018 were \$829,948, and were equal to the required contributions.

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:

Inflation	2.5%
Overall Payroll Growth	3.0%
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)

Net Pension Liability - (Continued)

Actuarial Assumptions - (Continued)

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 Tables with Blue Collar Adjustment, 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 male 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, 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. 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 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).

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)**Net Pension Liability - (Continued)****Actuarial Assumptions - (Continued)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2017 are summarized in 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%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
Total	100.00%	

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.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2016	\$ 30,506,229	\$ 25,232,705	\$ 5,273,524
Changes for the year:			
Service cost	803,650	-	803,650
Interest	2,050,665	-	2,050,665
Difference between expected and actual experience	(95,374)	-	(95,374)
Change of assumptions	-	-	-
Contributions - Employer	-	779,767	(779,767)
Contributions - Employee	-	358,239	(358,239)
Net investment income	-	3,497,425	(3,497,425)
Benefit payments, including refunds of employee contributions	(1,055,658)	(1,055,658)	-
Administrative expense	-	(18,124)	18,124
Other changes	-	(918)	918
Net changes	1,703,283	3,560,731	(1,857,448)
Balance at 12/31/2017	\$ 32,209,512	\$ 28,793,436	\$ 3,416,076

NOTE 7: 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:

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's Net Pension Liability:	\$8,134,128	\$3,416,076	(\$418,642)

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.tmrs.com.

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 \$995,708.

At September 30, 2018, 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	\$ 202,335	\$ 68,202
Changes in actuarial assumptions	28,778	-
Difference between projected and actual investment earnings	-	729,684
Contributions subsequent to the measurement date	629,382	-
Total	\$ 860,495	\$ 797,886

\$629,382 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 September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2018	\$ 192,595
2019	(27,586)
2020	(372,937)
2021	(358,842)
2022	-
Thereafter	-
Total	(\$566,770)

NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB)**Plan Description and Benefits Provided**

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

Membership

At the December 31, 2017 valuation and measurement date, the following is the number of members in the plan:

Inactive employees currently receiving benefits	54
Inactive employees entitled to but not yet receiving benefits	23
Active employees	<u>134</u>
Total	<u>211</u>

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 pre-fund retired term life insurance during employees' entire careers. Therefore, there are no assets that are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. The SDBF is considered an unfunded OPEB plan and benefit payments made by the City are treated as being equal to the City's yearly contribution for retirees.

The City's contribution rates for the program are as follows:

Plan/Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2017	0.24%	0.06%
2018	0.25%	0.05%

NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)**Total OPEB Liability**

The City's total OPEB liability and the OPEB expense is recognized on the City's financial statements. The OPEB expense recognized each fiscal year is equal to the change in the total OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of certain changes in the liability.

Actuarial Assumptions

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Inflation	2.5%
Salary increases	3.5% to 10.5 % including inflation
Discount rate	3.31%; based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates-service retirees	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
Mortality rates-disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Implementing GASB Statement No. 75

In the year of implementation (fiscal year ended September 30, 2018), the City made a prior period adjustment for the Total OPEB Liability as of the 12/31/16 measurement date and recorded a deferred outflow of resources for contributions recorded by the City (retiree portion of SDB rate only) from December 31, 2016 to September 30, 2017. TMRS elected not to calculate other deferrals as of the December 31, 2016 measurement date.

NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)**Total OPEB Liability - (Continued)*****Changes in Total OPEB Liability***

The following details the changes in the Total OPEB liability:

Balance at 12/31/2016	\$	345,259
Changes for the year:		
Service cost		15,524
Interest		13,276
Change of benefit terms		-
Difference between expected and actual experience		-
Change of assumptions		31,482
Benefit payments		(3,582)
Net changes		<u>56,700</u>
Balance at 12/31/2017	\$	<u>401,959</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the Total OPEB Liability of the City, calculated using the discount rate of 3.31%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	1.0% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1.0% Increase in Discount Rate (4.31%)
City's Total OPEB Liability:	\$482,576	\$401,959	\$339,202

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$34,866.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in actuarial assumptions	25,416	-
Contributions subsequent to the measurement date	11,912	-
Total	\$ 37,328	\$ -

NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - (Continued)**

Deferred outflows and inflows of resources to be recognized in future OPEB expense (excluding City contributions subsequent to the measurement date) are as follows:

Year ended December 31:	OPEB Expense Amount
2018	\$ 6,066
2019	6,066
2020	6,066
2021	6,066
2022	1,152
Thereafter	-
Total	\$25,416

NOTE 9: RETIREE HEALTH BENEFIT PLAN (OPEB)**Plan Description**

In addition to providing pension benefits, the City provides medical benefits to eligible retirees and dependents with postemployment health care benefits through a single-employer postemployment healthcare plan (the "plan") administered by Texas Municipal League Multistate Intergovernmental Employee Benefits Pool. A separate audited financial report is not issued on the plan. In order for a City employee to be eligible for this benefit, he or she needs 20 years of service and/or attained the age of 60 with five years of service. Medical benefits are available with four coverage tiers depending on dependent status and continue until Medicare eligible. A Medicare supplement policy is available to Medicare eligible retirees with the retiree paying the full premium.

Eligible retirees pay the full contribution rate for pre-65 medical coverage. The amount of the contribution depends on years of service with the City at retirement. The plan was changed effective June 1, 2015 to provide payment of higher retiree contribution rates for future retirees. Employees hired on or after this date will pay the full retiree contribution rate equal to 195% of the active employee contribution rate. Retirees hired prior to this date will pay the active employee contribution rate for either 2, 5 or 10 years (or to age 65, if earlier) depending on the years of service retirement. All retirees on the effective date will continue to pay the active employee contribution rate.

At the September 30, 2018 valuation and measurement date, the following represents the active employees and retirees that are eligible to participate in the plan:

	<u>Employees Only</u>	<u>Employee & Dependents</u>
Retirees	2	1
Active employees	68	13

NOTE 9: RETIREE HEALTH BENEFIT PLAN (OPEB) - (Continued)**Total OPEB Liability*****Funded Status***

As of September 30, 2018, the most recent valuation date, the Total OPEB Liability for benefits was \$390,842, all of which was unfunded. There are no assets that are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

Actuarial Methods and Assumptions

Actuarial values of the program involve estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. The actuarial methods and assumptions used in the September 30, 2018 valuation are as follows:

Actuarial method	Individual entry age normal cost method – level percentage of projected salary
Discount rate	4.06% (1.06% real rate of return plus 3.00% inflation)
Health care cost trend	Level 5.00%
Mortality rates	RPH-2014 Total Table with Projection MP-2018
Turnover	Rates varying based on gender, age and select and ultimate at 9 years. Rates based on the TMRS actuarial assumptions from the 2017 retirement plan valuation report
Disability	None assumed
Retirement rates	Rates based on the TMRS actuarial assumptions from the 2017 retirement plan valuation report
Salary scale	3.50%

Implementing GASB Statement No. 75

In the year of implementation (fiscal year ended September 30, 2018), the City made a prior period adjustment for the Total OPEB Liability as of September 30, 2017.

Changes in Total OPEB Liability

The following details the changes in the Total OPEB liability:

Balance at 9/30/17	\$ 383,961
Changes for the year:	
Service cost	11,326
Interest	15,641
Change of benefit terms	-
Difference between expected and actual experience	-
Change of assumptions	-
Benefit payments	(20,086)
Net changes	6,881
Balance at 9/30/18	<u>\$ 390,842</u>