

CITY OF LEVELLAND, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2018

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

CITY OF LEVELLAND, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2018

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

TABLE OF CONTENTS (CONTINUED)

	<u>Page No.</u>
FINANCIAL SECTION	
Independent Auditor’s Report	1
<u>Basic Financial Statements</u>	
Statement of Net Position	4
Statement of Activities	5
Balance Sheet – Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances – Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Statement of Net Position – Proprietary Funds	10
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	11
Statement of Cash Flows – Proprietary Funds	12
Statement of Fiduciary Net Position	13
Notes to Financial Statements	14
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in the Plan’s Net Pension Liability and Related Ratios	40
Schedule of Contributions	41
Schedule of Changes in the Total OPEB Liability and Related Ratios	42
Budgetary Comparison Schedule – General Fund – Budgetary Basis	43
Notes to Required Supplementary Information – Pension Plan	44
Notes to Required Supplementary Information – Budgetary Comparison Schedule	45

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

TABLE OF CONTENTS (CONCLUDED)

	<u>Page No.</u>
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet – Nonmajor Governmental Funds	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	47
Combining Balance Sheet – Nonmajor Special Revenue Funds	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds	49
Combining Statement of Net Position – Internal Service Funds	50
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position – Internal Service Funds	51
Combining Statement of Cash Flows – Internal Service Funds	52
OVERALL INTERNAL CONTROL AND COMPLIANCE SECTION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

To the Mayor and City Council
City of Levelland, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Levelland, Texas (the City), as of and for the fiscal year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Levelland, Texas as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flow thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note M to the financial statements, in 2018 the City adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 schedule of changes in the plan's net pension liability and related ratios, schedule of contributions for the retirement plan, schedule of changes in the total OPEB liability and related ratios, and budgetary comparison information on pages 40 through 43 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relates 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 statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report February 25, 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 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 of the City's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

February 25, 2019

-4-
CITY OF LEVELLAND, TEXAS

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2018**

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 5,594,192	\$ 5,941,566	\$ 11,535,758	\$ 3,213,949
Cash with Escrow Agent	394,925		394,925	
Receivables (Net of Allowances)	1,219,953	956,960	2,176,913	147,896
Intergovernmental Receivables	93,312		93,312	168,092
Due from LEDC	16,649		16,649	
Inventories		154,929	154,929	890,529
Prepaid Items	13,485	0	13,485	
Internal Balances	1,188,287	(1,188,287)		
Notes Receivable				1,140,693
Capital Assets, Net of Accumulated Amortization and Depreciation				
Land	1,380,645	1,085,357	2,466,002	84,205
Buildings and Improvements	6,142,532	1,665,627	7,808,159	11,480
Improvements Other Than Buildings	17,020,868	16,316,149	33,337,017	5,151,472
Machinery and Equipment	2,623,485	1,952,103	4,575,588	14,261
Construction in Progress	393,104	524,302	917,406	
Investment in Water Facilities		6,696,016	6,696,016	
Total Assets	<u>\$ 36,081,437</u>	<u>\$ 34,104,722</u>	<u>\$ 70,186,159</u>	<u>\$ 10,822,577</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Plan - Employer Contributions	\$ 376,684	\$ 85,180	\$ 461,864	\$ 11,514
Pension Plan - Change in Assumption	50,019	11,311	61,330	1,574
OPEB Plan - Employer Contributions	917	207	1,124	28
OPEB Plan - Change in Assumption	13,168	2,978	16,146	425
Loss on Refunding		6,081	6,081	
Total Deferred Outflows of Resources	<u>\$ 440,788</u>	<u>\$ 105,757</u>	<u>\$ 546,545</u>	<u>\$ 13,541</u>
LIABILITIES				
Accounts Payable	\$ 212,569	\$ 451,515	\$ 664,084	\$ 65,596
Accrued Wages	80,268	14,910	95,178	
Accrued Interest	54,635	22,700	77,335	4,133
Customer Deposits and Prepayments	2,000	272,520	274,520	
Unearned Revenue	207		207	
Due to City of Levelland				16,649
Noncurrent Liabilities				
Net Pension Liability	716,659	162,059	878,718	23,127
Total OPEB Liability	191,623	43,332	234,955	6,184
Due Within One Year	1,270,712	775,437	2,046,149	380,000
Due In More Than One Year	10,639,148	5,122,181	15,761,329	1,150,000
Total Liabilities	<u>\$ 13,167,821</u>	<u>\$ 6,864,654</u>	<u>\$ 20,032,475</u>	<u>\$ 1,645,689</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Plan - Experience Differences	\$ 327,924	\$ 74,154	\$ 402,078	\$ 10,581
Pension Plan - Earnings Differences	547,032	123,701	670,733	18,077
Payments Received in Advance				4,500
Total Deferred Inflows of Resources	<u>\$ 874,956</u>	<u>\$ 197,855</u>	<u>\$ 1,072,811</u>	<u>\$ 33,158</u>
NET POSITION				
Net Investment in Capital Assets	\$ 16,061,724	\$ 22,461,694	\$ 38,523,418	\$ 4,636,418
Restricted for:				
Enabling Legislation	149,834		149,834	
Debt Service	11,501		11,501	
Donor Requirements	86,658		86,658	
Economic Development	344,492		344,492	4,520,853
Sewer Improvements		1,490,670	1,490,670	
Waterline Relocation Project		502,967	502,967	
Unrestricted	<u>5,825,239</u>	<u>2,692,639</u>	<u>8,517,878</u>	
Total Net Position	<u>\$ 22,479,448</u>	<u>\$ 27,147,970</u>	<u>\$ 49,627,418</u>	<u>\$ 9,157,271</u>

See accompanying notes to the financial statements.

-5-
CITY OF LEVELLAND, TEXAS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Fines, Fees, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
PRIMARY GOVERNMENT								
<u>Governmental Activities:</u>								
General Government	\$ 1,319,099	\$ 192,726	\$ 7,650	\$	\$ (1,118,723)	\$	\$ (1,118,723)	\$
Public Safety	5,364,750	35,531	579,615		(4,749,604)		(4,749,604)	
Highways and Streets	1,423,587			52,933	(1,370,654)		(1,370,654)	
Recreation and Parks	911,369			144,337	(767,032)		(767,032)	
Economic Development	261,163				(261,163)		(261,163)	
Cemetery	340,848	144,771			(196,077)		(196,077)	
Interest and Fee's Related to Debt	337,435		420,336		82,901		82,901	
Total Governmental Activities	<u>\$ 9,958,251</u>	<u>\$ 373,028</u>	<u>\$ 1,007,601</u>	<u>\$ 197,270</u>	<u>\$ (8,380,352)</u>	<u>\$ 0</u>	<u>\$ (8,380,352)</u>	<u>\$ 0</u>
<u>Business-Type Activities:</u>								
Water and Sewer	\$ 2,698,417	\$ 4,268,807	\$ 158,211	\$	\$	\$ 1,728,601	\$ 1,728,601	\$
Sanitation	2,019,444	2,654,827				635,383	635,383	
Street Lights	151,737	152,479				742	742	
Sewer Improvement Fee		201,795				201,795	201,795	
Swimming Pool	56,779	12,307				(44,472)	(44,472)	
Airport	78,172	40,368	9,774			(28,030)	(28,030)	
Interest on Debt	232,645					(232,645)	(232,645)	
Depreciation	1,032,864					(1,032,864)	(1,032,864)	
Amortization	355,394					(355,394)	(355,394)	
Total Business-Type Activities	<u>\$ 6,625,452</u>	<u>\$ 7,330,583</u>	<u>\$ 167,985</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 873,116</u>	<u>\$ 873,116</u>	<u>\$ 0</u>
Total Primary Government	<u>\$ 16,583,703</u>	<u>\$ 7,703,611</u>	<u>\$ 1,175,586</u>	<u>\$ 197,270</u>	<u>\$ (8,380,352)</u>	<u>\$ 873,116</u>	<u>\$ (7,507,236)</u>	<u>\$ 0</u>
Component Units	<u>\$ 1,539,804</u>	<u>\$ 424,108</u>	<u>\$ 0</u>	<u>\$ 0</u>				<u>\$ (1,115,696)</u>
General Revenues (Expenses):								
Taxes:								
Property Taxes, Levied for General Purposes				\$ 4,472,563		\$ 4,472,563		\$
Sales Taxes				3,333,679		3,333,679		1,510,864
Franchise Taxes				836,069		836,069		
Motel Occupancy Taxes				170,165		170,165		
Investment Earnings				69,737	57,128	126,865		27,523
Rents and Royalties				80,881		80,881		
Miscellaneous				355,234	438,227	793,461		4,549
Loss on Disposition of Assets				(12,849)	(8,998)	(21,847)		
Transfers				568,105	(568,105)			
Total General Revenues, Special Items, and Transfers				<u>\$ 9,873,584</u>	<u>\$ (81,748)</u>	<u>\$ 9,791,836</u>		<u>\$ 1,542,936</u>
Change in Net Position				<u>\$ 1,493,232</u>	<u>\$ 791,368</u>	<u>\$ 2,284,600</u>		<u>\$ 427,240</u>
Net Position—Beginning				25,965,222	21,575,904	47,541,126		8,735,250
Prior Period Adjustment - GASB 75				(161,735)	(36,573)	(198,308)		(5,219)
Transfer Net Position				<u>(4,817,271)</u>	<u>4,817,271</u>			
Net Position—Ending				<u>\$ 22,479,448</u>	<u>\$ 27,147,970</u>	<u>\$ 49,627,418</u>		<u>\$ 9,157,271</u>

See accompanying notes to the financial statements.

CITY OF LEVELLAND, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	<u>Major Fund</u> General Fund	<u>Nonmajor</u> Governmental Funds	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 3,400,351	\$ 1,498,526	\$ 4,898,877
Cash with Escrow Agent	394,925		394,925
Receivables (Net of Allowances)	1,142,037	77,916	1,219,953
Due from Other Funds	65,243		65,243
Intergovernmental Receivables	19,080	74,232	93,312
Due from LEDC	16,649		16,649
Prepays	13,485		13,485
Total Assets	<u>\$ 5,051,770</u>	<u>\$ 1,650,674</u>	<u>\$ 6,702,444</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 171,188	\$ 41,381	\$ 212,569
Accrued Wages	76,837	3,431	80,268
Due to Other Funds		74,165	74,165
Customer Deposits	2,000		2,000
Unearned Revenue		207	207
Advances from Other Funds	118,396		118,396
Total Liabilities	<u>\$ 368,421</u>	<u>\$ 119,184</u>	<u>\$ 487,605</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenues	\$ 126,205	\$ 16,285	\$ 142,490
FUND BALANCES			
Restricted Fund Balance:			
Restricted for Enabling Legislation	\$	\$ 149,834	\$ 149,834
Restricted for Economic Development		344,492	344,492
Restricted for Donor Requirements		86,658	86,658
Restricted for Debt Service		11,501	11,501
Committed Fund Balance:			
Committed for Expansion and Improvements		659,991	659,991
Committed for Cemetery Operations		262,729	262,729
Unassigned	<u>4,557,144</u>		<u>4,557,144</u>
Total Fund Balances	<u>\$ 4,557,144</u>	<u>\$ 1,515,205</u>	<u>\$ 6,072,349</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 5,051,770</u>	<u>\$ 1,650,674</u>	<u>\$ 6,702,444</u>

See accompanying notes to the financial statements.

-7-
CITY OF LEVELLAND, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2018**

Total Fund Balances - Governmental Funds Balance Sheet	\$ 6,072,349
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (Net of accumulated depreciation)	27,560,634
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	2,010,920
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(410,950)
Long-term obligations including reoffering premiums are not due and payable in the current period and therefore are not reported in the funds.	(11,498,910)
Payables for bond interest which are not due in the current period are not reported in the funds.	(54,635)
Net Pension Liability and Related Deferred Outflows and Inflows are not reported in the funds.	(1,164,912)
Total OPEB Liability and Related Deferred Outflows and Inflows are not reported in the funds.	(177,538)
Property tax revenue is recognized in funds but not in the Statement of Net Position.	<u>142,490</u>
Net Position of Governmental Activities	<u>\$ 22,479,448</u>

See accompanying notes to the financial statements

CITY OF LEVELLAND, TEXAS

STATEMENT OF GOVERNMENTAL FUNDS REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u>
REVENUES			
Taxes:			
General Property Taxes	\$ 3,685,868	\$ 796,779	\$ 4,482,647
Sales and Use Taxes	3,333,679		3,333,679
Franchise Taxes	836,069		836,069
Motel Occupancy Taxes		170,165	170,165
Intergovernmental Revenues	430,292	696,644	1,126,936
Charges for Services	17,296		17,296
Fines and Fees	192,725	163,006	355,731
Rents and Royalties	66,398	14,483	80,881
Investment Earnings	45,230	18,144	63,374
Miscellaneous	348,827	6,407	355,234
Contributions and Donations		77,936	77,936
Total Revenues	<u>\$ 8,956,384</u>	<u>\$ 1,943,564</u>	<u>\$ 10,899,948</u>
EXPENDITURES			
Current			
General Government	\$ 1,239,296	\$ 96,482	\$ 1,335,778
Public Safety	5,425,850	68,170	5,494,020
Highways and Streets	1,062,077	88,621	1,150,698
Recreation and Parks	943,014	132,541	1,075,555
Economic Development		262,981	262,981
Cemetery		306,988	306,988
Debt Service			
Principal		1,175,000	1,175,000
Interest		304,015	304,015
Fiscal Agent's Fees		2,050	2,050
Total Expenditures	<u>\$ 8,670,237</u>	<u>\$ 2,436,848</u>	<u>\$ 11,107,085</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	<u>\$ 286,147</u>	<u>\$ (493,284)</u>	<u>\$ (207,137)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$ (17,565)	\$ 601,918	\$ 584,353
Proceeds from Debt Issue	716,075		716,075
Proceeds from the Sale of Assets	27,200	14,000	41,200
Total Other Financing Sources	<u>\$ 725,710</u>	<u>\$ 615,918</u>	<u>\$ 1,341,628</u>
Net Change in Fund Balance	\$ 1,011,857	\$ 122,634	\$ 1,134,491
Fund Balance - Beginning	3,636,592	1,392,571	5,029,163
Transfer Fund Balance to Proprietary Fund	<u>(91,305)</u>		<u>(91,305)</u>
Fund Balance - Ending	<u>\$ 4,557,144</u>	<u>\$ 1,515,205</u>	<u>\$ 6,072,349</u>

See accompanying notes to the financial statements.

CITY OF LEVELLAND, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Net Change in Fund Balances - Total Governmental Funds	\$	1,134,491
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:		
Governmental funds report capital outlay as expenditures. However, the statement of activities reports these as Capital Assets that are depreciated over their useful lives.		1,515,611
The loss on disposition of assets is not reported in the funds.		(54,049)
Depreciation is recorded in the Statement of Activities as an expense but not in governmental funds.		(1,556,000)
Principal payments are recorded as expenditures in governmental funds but excluded in the Statement of Activities.		1,175,000
Capital lease proceeds do not provide revenue in the SOA, but are reported as current resources in the funds.		(716,075)
The net revenue of internal service funds is reported with governmental activities.		(9,885)
Change in accrued interest from beginning of period to end of period.		(11,399)
Accrued compensated absences are recorded in the statement of activities as an expense but not in governmental funds.		12,419
Amortization of discounts and premiums are not reported in the funds.		(19,971)
Pension Expense is not recognized in the funds related to the Net Pension Liability and related balance sheet amounts.		48,977
OPEB Expense is not recognized in the funds related to the Total OPEB Liability and related balance sheet amounts.		(15,803)
Deferred revenue is not recorded in the statements of net position thus the change is excluded in activities.		(10,084)
Change in Net Position of Governmental Activities	\$	<u>1,493,232</u>

See accompanying notes to the financial statements

CITY OF LEVELLAND, TEXAS

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2018

	Major Proprietary Funds		Total Proprietary Funds	Internal Service Funds
	Enterprise Fund	Airport Fund		
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 5,870,956	\$ 70,610	\$ 5,941,566	\$ 695,315
Receivables (Net of Allowances)	927,534	29,426	956,960	
Inventories	154,929		154,929	
Due from Other Funds			0	224,338
Noncurrent Assets:				
Advances to Other Funds			0	1,091,267
Capital Assets, Net of Accumulated Depreciation and Amortization				
Land	849,111	236,246	1,085,357	
Building and Improvements	844,126	821,501	1,665,627	
Improvements Other Than Buildings	12,721,826	3,594,323	16,316,149	
Machinery and Equipment	1,952,103		1,952,103	
Construction in Progress	524,302		524,302	
Investment in Water Facilities	6,696,016		6,696,016	
Total Assets	\$ 30,540,903	\$ 4,752,106	\$ 35,293,009	\$ 2,010,920
DEFERRED OUTFLOWS OF RESOURCES				
Pension Plan - Employer Contributions	\$ 85,180	\$	\$ 85,180	\$
Pension Plan - Change in Assumption	11,311		11,311	
OPEB Plan - Employer Contributions	207		207	
OPEB Plan - Change in Assumption	2,978		2,978	
Loss on Refunding	6,081		6,081	
Total Deferred Outflows of Resources	\$ 105,757	\$ 0	\$ 105,757	\$ 0
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 427,463	\$ 24,052	\$ 451,515	\$
Accrued Wages	14,910		14,910	
Accrued Interest	22,700		22,700	
Due to Other Funds	215,416		215,416	
Customer Deposits and Prepayments	272,520		272,520	
Noncurrent Liabilities:				
Due Within One Year	775,437		775,437	
Due In More Than One Year	5,122,181		5,122,181	
Net Pension Liability	162,059		162,059	
Total OPEB Liability	43,332		43,332	
Advances from Other Funds	972,871		972,871	
Total Liabilities	\$ 8,028,889	\$ 24,052	\$ 8,052,941	\$ 0
DEFERRED INFLOWS OF RESOURCES				
Pension Plan - Experience Differences	\$ 74,154	\$	\$ 74,154	\$ 0
Pension Plan - Earnings Differences	123,701		123,701	
	\$ 197,855	\$ 0	\$ 197,855	\$ 0
NET POSITION				
Net Investment in Capital Assets	\$ 17,809,624	\$ 4,652,070	\$ 22,461,694	\$
Restricted for Sewer Improvements	1,490,670		1,490,670	
Restricted for Waterline Relocation Project	502,967		502,967	
Unrestricted	2,616,655	75,984	2,692,639	2,010,920
Total Net Position	\$ 22,419,916	\$ 4,728,054	\$ 27,147,970	\$ 2,010,920

See accompanying notes to the financial statements.

-11-
CITY OF LEVELLAND, TEXAS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Major Proprietary Funds		Total Proprietary Funds	Internal Service Funds
	Enterprise Fund	Airport Fund		
OPERATING REVENUES				
Water and Sewer Revenues	\$ 4,268,807	\$	\$ 4,268,807	\$
Sanitation Charges	2,654,827		2,654,827	
Street Lights	152,479		152,479	
Sewer Improvement Fee	201,795		201,795	
Swimming Pool	12,307		12,307	
Hanger Rental and Fuel Sales		40,368	40,368	
Total Operating Revenues	\$ 7,290,215	\$ 40,368	\$ 7,330,583	\$ 0
OPERATING EXPENSES				
Personnel Services	\$ 1,324,352	\$	\$ 1,324,352	\$
Supplies and Capital Outlay	321,154	12,258	333,412	
Repairs and Maintenance	473,506	27,467	500,973	
Services	2,771,585	38,447	2,810,032	
Other Operating Expenses	35,780		35,780	
Depreciation	849,416	183,448	1,032,864	
Amortization of Water Rights	355,394		355,394	
Total Operating Expense	\$ 6,131,187	\$ 261,620	\$ 6,392,807	\$ 0
Operating Income (Loss)	\$ 1,159,028	\$ (221,252)	\$ 937,776	\$ 0
NONOPERATING REVENUE (EXPENSE)				
Investment Earnings	\$ 56,396	\$ 732	\$ 57,128	\$ 6,363
Intergovernmental Revenues	158,211	9,774	167,985	
Interest Expense and Fees	(232,645)		(232,645)	
Loss on Disposition of Assets	(8,998)		(8,998)	
Miscellaneous	316,698	121,529	438,227	
Total Nonoperating Revenue (Expense)	\$ 289,662	\$ 132,035	\$ 421,697	\$ 6,363
Income (Loss) Before Transfers	\$ 1,448,690	\$ (89,217)	\$ 1,359,473	\$ 6,363
TRANSFERS				
Transfers In/(Out)	\$ (568,105)	\$	\$ (568,105)	\$ (16,248)
Total Transfers	\$ (568,105)	\$ 0	\$ (568,105)	\$ (16,248)
Change in Net Position	\$ 880,585	\$ (89,217)	\$ 791,368	\$ (9,885)
TOTAL NET POSITION - BEGINNING	21,575,904		21,575,904	2,020,805
TRANSFER FUND BALANCE FROM GENERAL FUND		91,305	91,305	
TRANSFER NET POSITION FROM GOVERNMENTAL ACTIVITIES		4,725,966	4,725,966	
PRIOR PERIOD ADJUSTMENT - GASB 75	(36,573)		(36,573)	
TOTAL NET POSITION - ENDING	\$ 22,419,916	\$ 4,728,054	\$ 27,147,970	\$ 2,010,920

See accompanying notes to the financial statements.

-12-
CITY OF LEVELLAND, TEXAS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Major Proprietary Funds		Total Proprietary Funds	Internal Service Funds
	Enterprise Fund	Airport Fund		
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received From Customers	\$ 7,179,184	\$ 33,101	\$ 7,212,285	\$
Cash Payments to Suppliers for Goods and Services	(3,486,686)	(144,965)	(3,631,651)	
Cash Payments to Employees for Services	(1,328,804)		(1,328,804)	
Net Cash From Operating Activities	\$ 2,363,694	\$ (111,864)	\$ 2,251,830	\$ 0
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash Transfers From Other Funds	\$ (750,135)	\$	\$ (750,135)	\$ 187,810
Cash Received From Intergovernmental Grant	158,211	9,776	167,987	
Cash Receipts From Non-Operating Activities	316,698	121,529	438,227	
Net Cash From Noncapital Financing Activities	\$ (275,226)	\$ 131,305	\$ (143,921)	\$ 187,810
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions of Capital Assets	\$ (689,279)	\$ (109,566)	\$ (798,845)	\$
Issuance of Debt	842,000		842,000	
Principal Payments on Long-Term Debt	(651,312)		(651,312)	
Interest Payments	(217,762)		(217,762)	
Net Cash From Capital and Related Financing Activities	\$ (716,353)	\$ (109,566)	\$ (825,919)	\$ 0
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Earned on Investments	\$ 56,396	\$ 732	\$ 57,128	\$ 6,363
Net Cash From Investing Activities	\$ 56,396	\$ 732	\$ 57,128	\$ 6,363
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 1,428,511	\$ (89,393)	\$ 1,339,118	\$ 194,173
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,442,445	160,003	4,602,448	501,142
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,870,956	\$ 70,610	\$ 5,941,566	\$ 695,315
Reconciliation of Operating Income to Net Cash Flows From Operating Activities				
Operating Income	\$ 1,159,028	\$ (221,252)	\$ 937,776	\$ 0
Adjustments to Reconcile Income From Operations to Net Cash From Operating Activities:				
Depreciation Expense	\$ 849,416	\$ 183,448	\$ 1,032,864	\$
Amortization Expense	355,394		355,394	
Change in Assets and Liabilities:				
Receivables	(107,881)	(7,267)	(115,148)	
Inventories	41,131		41,131	
Prepays	14,042		14,042	
Deferred Outflows - Pension Plan	5,055		5,055	
Deferred Outflows - OPEB Plan	(3,185)		(3,185)	
Accounts Payable	60,166	(66,793)	(6,627)	
Accrued Payroll	(1,348)		(1,348)	
Meter Deposits	(3,150)		(3,150)	
Net Pension Liability	(408,034)		(408,034)	
Total OPEB Liability	6,759		6,759	
Accrued Compensated Absences	13,358		13,358	
Deferred Inflows - Pension Plan	382,943		382,943	
	\$ 1,204,666	\$ 109,388	\$ 1,314,054	\$ 0
Net Cash From Operating Activities	\$ 2,363,694	\$ (111,864)	\$ 2,251,830	\$ 0

Supplemental Cash Flow Information:

Non-Cash Financing Activities:

Capital Assets in the amount of \$816,516 were financed through a capital lease agreement during the year ended September 30, 2018.

See accompanying notes to the financial statements.

CITY OF LEVELLAND, TEXAS

STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2018

	TNRCC Nonexpendable Trust Fund
ASSETS	
Cash and Cash Equivalents	\$ 31,283
Total Assets	<u>\$ 31,283</u>
NET POSITION	
Held in Trust for TNRCC	\$ 31,283
Total Net Position	<u>\$ 31,283</u>

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

The City of Levelland, Texas' (the City) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

1. Reporting Entity

Primary Government

The City has a council-manager form of government with a mayor and four council members. The Mayor is elected at large for a three-year term and council members are elected to represent residents in four election districts for two-year terms. The terms are staggered so that two council members are elected each year. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs when deemed appropriate by the City. The City Council is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the GASB in its Statement No. 61, *The Financial Reporting Entity*.

Component Units

As defined by GASB No. 61, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The City has two component units that are reflected as discretely presented on the government-wide financial statements.

The Levelland Economic Development Corporation (LEDC), a nonprofit corporation, was incorporated in the State of Texas on March 12, 1992. The purpose of LEDC is to promote and develop industrial and manufacturing enterprises in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City of Levelland, Texas.

The Levelland Community Development Corporation (LCDC), a nonprofit corporation, was incorporated in the State of Texas on September 17, 2010. The purpose of the LCDC is to engage in projects primarily for amateur sports, including children's sports, including ballparks, soccer fields and sports and recreational complexes; for public park facilities and open space improvements; for related concession and parking facilities; and for maintenance and operation expenses for any of the above described projects.

Complete stand-alone financial statements for LEDC and LCDC may be obtained from:

City of Levelland
1709 Avenue H
Levelland, Texas 79336

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation – Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's general fund and other funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's public safety, highways and streets, recreation and parks, economic development, cemetery and airport services are classified as governmental activities. The City's enterprise services are classified as business-type activities.

In the government-wide Statement of Net Position, the governmental activities, business-type activities, and component unit (a) are presented by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (public safety, highways and streets, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (public safety, highways and streets, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or franchise taxes, intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

b. Basis of Presentation – Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance/net position, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

The following fund types are used by the City:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

Major Funds:

General Fund – This governmental fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Nonmajor Funds:

Debt Service Fund - This governmental fund is established to account for the payment of bond principal and interest payments.

Capital Project Funds - This governmental fund is established to account for expansion and improvements.

Capital Project Fund - This governmental fund is established to account for improvements related to the 2015 Tax Bonds issued.

Special Revenue Funds – The special revenue funds are used to account for the receipt of taxes and other revenues dedicated for various purposes.

2. Proprietary Fund – Enterprise Fund:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the City:

Enterprise Fund – This fund accounts for the revenues and expenses associated with providing water and sewer, sanitation and other business-type services to the citizens of the City.

Airport Fund – This fund accounts for the activities at the Airport. Funding consists of hanger rentals and fuel sales.

A proprietary fund is required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, to be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Fund Balances

The City applies GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Non-Spendable Fund Balance—includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaids) or because they must remain intact such as the principal of an endowment.

Restricted Fund Balance—includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.

Committed Fund Balance—includes the portion of net resources upon which the City Commission has imposed limitations on use and those amounts can only be used for the specific purposes determined by a formal action of the City Council. Commitments may be changed or lifted only by the City Council taking the same formal action that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.

Assigned Fund Balance—includes the portion of net resources for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.

Unassigned Fund Balance—includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

Fund Balance Policy

Committed Fund Balance—The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the City Council at the City's regular or special meetings. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period (i.e. the City Council may approve the calculation or formula for determining the amount to be committed).

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Assigned Fund Balance—The City Council authorizes the City Manager as the City Official responsible for the assignment of fund balance to a specific purpose as approved by this fund balance policy.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

c. Measurement Focus, Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Governmental activities, business-type activities and discretely presented component units in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 45 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

d. Financial Statement Amounts

1. Cash and Cash Equivalents:

The City has defined cash and cash equivalents to include cash on hand, cash in bank, certificates of deposit and investment pools.

2. Capital Assets:

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure and Improvements	
Other than Buildings	10-50 years
Buildings	50 years
Building Improvements	10-20 years
Vehicles	2-15 years
Office Equipment	3-15 years
Computer Equipment	3-15 years

3. Revenues:

Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue. The City also recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements related to grants, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as cash paid in advance by the provider and deferred inflows of resources by the City.

4. Expenditures:

Expenditures are recognized when the related fund liability is incurred. In accordance with GASB 63 and 65, any loss on bond refunding is recognized as a deferred outflow of resources on the statement of net position and amortized over the life of the refunding bonds. In addition, bond issue costs are immediately expensed. The City expenses immediately any refunding changes with respect to the debt issued by Canadian River Municipal Water Association (CRMWA) that are related to the City.

5. Compensated Absences:

Compensated absences (general leave) for the City includes both vacation and sick pay. General leave is based on an employee's length of employment and is earned ratably during the span of employment. Upon termination, employees are paid for any accrued general leave earned as set forth by personnel policy.

Vested or accumulated general leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated general leave that are not expected to be liquidated with expendable available financial resources are maintained separately and represents a reconciling item between the fund and government-wide presentations. Vested or accumulated general leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

6. Interfund Activity:

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenue and expenditures or expenses. Reimbursements occur when one fund incurs cost, charges the appropriate benefiting fund and reduces its related cost as reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line item on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line item on the government-wide statement of net position.

7. Encumbrances:

The City does not utilize an encumbrance accounting system. At year-end, the City reviews commitments to determine amounts encumbered. At September 30, 2018, there were no material commitments to be indicated by a reserve in the general fund balance.

8. Inventory:

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in the governmental activities and governmental funds. The first in first out method (FIFO) is used in the Enterprise Fund.

9. Deferred Inflows of Resources:

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

B. Cash and Cash Equivalents

At September 30, 2018, the carrying amount of the City's cash and cash equivalents was \$11,535,758, with a bank balance of \$12,000,599. The City's cash and cash equivalents at September 30, 2018, and during the year then ended were entirely covered by FDIC insurance and securities pledged by the depository bank, which are held by the bank's third party custodian bank.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

C. Disaggregation of Accounts Receivable

Estimated uncollectible receivables are charged to current operations under the allowance method of accounting. The allowance for uncollectible balances at September 30, 2018, for the various accounts included in the financial statements is as follows:

	<u>Total Receivables</u>	<u>Estimated Uncollectible Accounts</u>	<u>Net Receivables</u>
Governmental Activities:			
General Fund			
Ad Valorem Taxes	\$ 354,148	\$ 227,943	\$ 126,205
Sales Taxes	616,337		616,337
Franchise Taxes	306,408		306,408
Other	93,087		93,087
Special Revenue Funds			
Hotel Occupancy Tax	55,507		55,507
Mainstreet Activities			
Other	1,200		1,200
Debt Service			
Ad Valorem Taxes	38,551	25,042	13,509
Cemetery Fund			
Ad Valorem Taxes	11,781	9,005	2,776
Other	4,924		4,924
Total Governmental Activities	<u>\$ 1,481,943</u>	<u>\$ 261,990</u>	<u>\$ 1,219,953</u>
Business-Type Activities:			
Enterprise Fund			
Customer Accounts	1,824,094	955,832	868,262
Other	59,272		59,272
Airport Fund			
Hanger Rental and Fuel	29,426		29,426
Primary Government	<u>\$ 3,394,735</u>	<u>\$ 1,217,822</u>	<u>\$ 2,176,913</u>

D. Investments Policies and Risk

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy.

That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does not address the following risks:

- a. **Custodial Credit Risk – Deposits and Investments:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits and investments in certificates of deposits may not be returned to it. The City's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state or local governments by pledging securities in excess of the highest cash balance of the government. The City is not exposed to custodial credit risk, for its deposits are all covered by depository insurance and securities pledged by the depository bank, which are held by the bank's third party custodian bank.
- b. **Concentration of Credit Risk –** The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. At September 30, 2018, all of the City's investments are with various financial institutions which are covered by FDIC insurance and pledged securities, and as such the City has no risk.
- c. **Credit Risk –** The risk that an issuer of other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At September 30, 2018, the City was not significantly exposed to credit risk.
- d. **Interest Rate Risk –** Not applicable
- e. **Foreign Currency Risk –** Not applicable

E. Property Taxes

The City is permitted by the State of Texas Constitution to levy taxes up to 1.50 per \$100 of assessed valuation for maintenance and operations, and up to 2.50 per \$100 of assessed valuation for the debt service tax. Taxes are collected by Hockley County from the citizens of Levelland and remitted to the City on a regular basis.

On October 1, 2017, property taxes of \$4,325,364 were levied for the governmental funds. Individual tax levies from the tax roll on October 1, 2017, were delinquent if unpaid at January 31, 2018.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Allowances for uncollectible tax receivables within the General, Cemetery and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property without specific authority from the Texas Legislature.

F. Component Unit Receivable

The City had \$16,649 due from LEDC at September 30, 2018 for their share of administration costs.

G. Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

	<u>Balance 10/1/2017</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Balance 9/30/2018</u>
Governmental Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 1,380,645	\$	\$	\$ 1,380,645
Construction Work in Progress	<u>4,024,880</u>	<u>633,389</u>	<u>4,265,165</u>	<u>393,104</u>
Total Capital Assets Not Being Depreciated	<u>\$ 5,405,525</u>	<u>\$ 633,389</u>	<u>\$ 4,265,165</u>	<u>\$ 1,773,749</u>
Depreciable Assets:				
Buildings and Improvements	\$ 2,410,904	\$ 87,989	\$ (4,265,165)	\$ 6,764,058
Improvements Other Than Buildings	24,665,898	463,765		25,129,663
Machinery and Equipment	<u>7,202,175</u>	<u>330,468</u>	<u>352,971</u>	<u>7,179,672</u>
Total Depreciable Assets	<u>\$ 34,278,977</u>	<u>\$ 882,222</u>	<u>\$ (3,912,194)</u>	<u>\$ 39,073,393</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 406,272	\$ 215,254	\$	\$ 621,526
Improvements Other Than Buildings	7,317,990	790,805		8,108,795
Machinery and Equipment	<u>4,305,168</u>	<u>549,941</u>	<u>298,922</u>	<u>4,556,187</u>
Total Accumulated Depreciation	<u>\$ 12,029,430</u>	<u>\$ 1,556,000</u>	<u>\$ 298,922</u>	<u>\$ 13,286,508</u>
Total Depreciable Assets, Net	<u>\$ 22,249,547</u>	<u>\$ (673,778)</u>	<u>\$ (4,211,116)</u>	<u>\$ 25,786,885</u>
Governmental Activities Capital Assets, Net	<u>\$ 27,655,072</u>	<u>\$ (40,389)</u>	<u>\$ 54,049</u>	<u>\$ 27,560,634</u>

Depreciation was charged to governmental activities as follows:

General Government	\$ 24,542
Public Safety	518,951
Highways and Streets	721,160
Recreation and Parks	258,346
Cemetery	33,001
	<u>\$ 1,556,000</u>

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

	<u>Balance</u> <u>10/1/2017</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Balance</u> <u>9/30/2018</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 1,085,357	\$	\$	\$ 1,085,357
Construction Work in Progress	<u>209,512</u>	<u>622,292</u>	<u>307,502</u>	<u>524,302</u>
Total Capital Assets Not Being Depreciated	<u>\$ 1,294,869</u>	<u>\$ 622,292</u>	<u>\$ 307,502</u>	<u>\$ 1,609,659</u>
Depreciable Assets:				
Buildings and Improvements	\$ 1,906,452	\$ 10,773	\$ (257,434)	\$ 2,174,659
Improvements Other Than Buildings	27,488,673	12,592	(37,408)	27,538,673
Machinery and Equipment	<u>3,274,458</u>	<u>843,167</u>	<u>28,000</u>	<u>4,089,625</u>
Total Depreciable Assets	<u>\$ 32,669,583</u>	<u>\$ 866,532</u>	<u>\$ (266,842)</u>	<u>\$ 33,802,957</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 483,905	\$ 25,127	\$	\$ 509,032
Improvements Other Than Buildings	10,523,536	699,523	535	11,222,524
Machinery and Equipment	<u>1,840,275</u>	<u>308,214</u>	<u>10,967</u>	<u>2,137,522</u>
Total Accumulated Depreciation	<u>\$ 12,847,716</u>	<u>\$ 1,032,864</u>	<u>\$ 11,502</u>	<u>\$ 13,869,078</u>
Total Depreciable Assets, Net	<u>\$ 19,821,867</u>	<u>\$ (166,332)</u>	<u>\$ (278,344)</u>	<u>\$ 19,933,879</u>
Investment in Water Facilities	\$ 12,886,184	\$ 550,770	\$ 335,372	\$ 13,101,582
Accumulated Amortization Investment in Water Facilities	<u>(6,245,499)</u>	<u>(493,087)</u>	<u>(333,020)</u>	<u>(6,405,566)</u>
Net Investment in Water Facilities	<u>\$ 6,640,685</u>	<u>\$ 57,683</u>	<u>\$ 2,352</u>	<u>\$ 6,696,016</u>
Business-Type Activities Capital Assets, Net	<u>\$ 27,757,421</u>	<u>\$ 513,643</u>	<u>\$ 31,510</u>	<u>\$ 28,239,554</u>

H. Investment in Water Facilities and Related Debt

The City, along with several West Texas municipalities, entered into various contracts with the Canadian River Municipal Water Authority (CRMWA), to participate in the construction and maintenance of water gathering, holding, treatment, and transmission facilities. Under the agreements, CRMWA agreed to issue revenue bonds to finance construction and maintenance of the facilities and the City agreed to pay back their share of the total annual debt service requirements. Additionally, the City entered into a similar agreement with the City of Lubbock, Texas, for the acquisition and maintenance of a water treatment facility. The total investment made by the City to obtain its total water rights was \$13,101,582, including other amounts invested.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

The following schedules comprise the debt outstanding related to the CRMWA contracts as of September 30, 2018:

<u>Water Facilities Debt</u>	<u>Balance 10/1/2017</u>	<u>Addition</u>	<u>Principal Payments</u>	<u>Balance 9/30/2018</u>
Series 2010, Refunding, CUP	\$ 69,823	\$	\$ 19,298	\$ 50,525
Series 2010, Refunding, BUREC	185,408	(111,216)	74,192	0
Series 2012, Refunding, CUP	1,144,081		34,939	1,109,142
Series 2009, CUP	412,292	(378,743)	26,784	6,765
Series 2011, CUP	1,078,695		60,239	1,018,456
Series 2014, Refunding, CUP	989,119		169,846	819,273
Series 2017, Refunding, CUP		319,874	4,604	315,270
Water Treatment Plant 2014		410,144	51,147	358,997
	<u>\$ 3,879,418</u>	<u>\$ 240,059</u>	<u>\$ 441,049</u>	<u>\$ 3,678,428</u>

<u>Water Facilities Debt</u>	<u>Maturity</u>	<u>Interest Rates</u>
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2009	2029	4.2%
Revenue Bonds, Bureau of Reclamation Project, Series 2010	2018	3.0%-5.0%
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2010	2020	3.0%-3.5%
Revenue Bonds, Conjunctive Use Groundwater Supply Project, Series 2011	2031	3.0%-5.0%
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2012	2025	2.6%
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2014	2027	2.0%-5.0%
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2017	2029	3.0%-5.0%
Water Treatment Plant 2014 - City of Lubbock	2024	3.38%

The City paid \$186,397 in interest related to this debt for the year ended September 30, 2018.

Debt service requirements related to this debt at September 30, 2018, are as follows:

Year Ending September 30,	<u>Total Water Facilities Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 358,781	\$ 172,775	\$ 531,556
2020	397,650	156,040	553,690
2021	428,057	137,157	565,214
2022	448,874	116,508	565,382
2023	470,885	94,697	565,582
2024-2028	1,285,626	191,913	1,477,539
2028-2031	288,553	18,033	306,586
Totals	<u>\$ 3,678,426</u>	<u>\$ 887,123</u>	<u>\$ 4,565,549</u>

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Investment in Water Facilities at cost as of September 30, 2018 is as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions/ Other</u>	<u>Ending</u>
Cost:				
CRMWA	\$ 12,316,077	\$	\$	\$ 12,316,077
City of Lubbock	370,107	550,770	335,372	585,505
Other	200,000			200,000
Total Cost of Water Facilities	<u>\$ 12,886,184</u>	<u>\$ 550,770</u>	<u>\$ 335,372</u>	<u>\$ 13,101,582</u>
Accumulated Amortization:				
CRMWA	\$ 5,866,549	\$ 305,533	\$	\$ 6,172,082
City of Lubbock	346,950	187,554	333,020	201,484
Other	32,000			32,000
Total Accumulated Amortization	<u>\$ 6,245,499</u>	<u>\$ 493,087</u>	<u>\$ 333,020</u>	<u>\$ 6,405,566</u>
Total Investment in Water Facilities	<u>\$ 6,640,685</u>	<u>\$ 57,683</u>	<u>\$ 2,352</u>	<u>\$ 6,696,016</u>
Investments in Water Facilities, Net of Related Debt:	<u>Net Investment</u>	<u>Debt</u>	<u>Investment Net of Related Debt</u>	
CRMWA	\$ 6,143,995	\$ 3,319,431	\$ 2,824,564	
City of Lubbock	384,021	358,997	25,024	
Other	168,000		168,000	
Totals	<u>\$ 6,696,016</u>	<u>\$ 3,678,428</u>	<u>\$ 3,017,588</u>	

I. Long-Term Debt

The City's long-term debt is made up of bonds, unamortized premiums on bonds, notes, lease obligations, and compensated absences, the activity from the year is summarized below. These liabilities have been grouped by primary government activities in which the debts are recorded and serviced and show the amounts payable at September 30, 2018:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Interest and Fees</u>
Governmental Activities:						
Series 2012, GO Refunding Bonds	\$ 1,820,000	\$	\$ 205,000	\$ 1,615,000	\$ 210,000	\$ 40,400
Series 2009, COs	3,070,000		200,000	2,870,000	210,000	120,910
Series 2013, COs	3,825,000		190,000	3,635,000	195,000	94,131
Series 2015, Tax Notes	2,980,000		580,000	2,400,000	585,000	48,574
Lease Obligations		716,075		716,075	70,712	
Compensated Absences	423,369		12,419	410,950		
Unamortized Bond Premiums	242,849	19,986		262,835		
Total Governmental Activities	<u>\$ 12,361,218</u>	<u>\$ 736,061</u>	<u>\$ 1,187,419</u>	<u>\$ 11,909,860</u>	<u>\$ 1,270,712</u>	<u>\$ 304,015</u>

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Interest and Fees</u>
Business-Type Activities:						
CRMWA - Debt	\$ 3,879,418	\$ (170,087)	\$ 389,902	\$ 3,319,429	\$ 305,335	\$ 168,697
City of Lubbock Debt		410,144	51,147	358,997	53,446	17,700
Note Payable	488,354		198,744	289,610	207,672	17,899
State Infrastructure Bank Loan		842,000	11,519	830,481	46,831	5,473
Lease Obligations		816,516		816,516	162,153	
Compensated Absences	106,398	13,360		119,758		
Unamortized Net Bond Premium	140,594	22,233		162,827		
Total Business-Type Activities	<u>\$ 4,614,764</u>	<u>\$ 1,934,166</u>	<u>\$ 651,312</u>	<u>\$ 5,897,618</u>	<u>\$ 775,437</u>	<u>\$ 209,769</u>

Detail on the maturity dates and interest rates of the outstanding Long-Term Debt of the City as of September 30, 2018 are as follows:

Governmental Activities:

<u>Debt</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>
Series 2012, GO Refunding Bonds	2025	2.00% - 2.75%
Series 2009, COs	2029	4.00% - 4.13%
Series 2013, COs	2033	2.00% - 3.13%
Series 2015, Tax Notes	2022	1.63%
Lease Obligations	2028	3.39%

Business-Type Activities:

<u>Debt</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>
CRMWA - Debt	See Note H	See Note H
City of Lubbock - Debt	See Note H	See Note H
Note Payable	2020	4.25%
Lease Obligations	2023	3.19%

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Debt service requirements on all long-term debt outstanding at September 30, 2018, are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 1,270,712	\$ 291,542	\$ 1,562,254
2020	1,292,512	272,882	1,565,394
2021	1,329,634	243,472	1,573,106
2022	1,361,828	212,601	1,574,429
2023	774,096	180,395	954,491
2024-2028	3,507,293	554,066	4,061,359
2029-2033	1,700,000	116,869	1,816,869
Unamortized Bond Premiums	262,835		262,835
Totals	\$ 11,498,910	\$ 1,871,827	\$ 13,370,737

Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2019	\$ 775,437	\$ 217,590	\$ 993,027
2020	683,606	198,011	881,617
2021	638,319	171,723	810,042
2022	665,571	144,639	810,210
2023	694,216	116,194	810,410
2024-2028	1,566,542	250,841	1,817,383
2029-2033	591,342	38,097	629,439
Unamortized Bond Premiums	162,827		162,827
Totals	\$ 5,777,860	\$ 1,137,095	\$ 6,914,955

LCDC is obligated to the City to make all debt payments on the Series 2013 Certificate of Obligation Bonds. LEDC is obligated to the City to make all debt payments, in excess of TIF #2 property tax payments received, on the Series 2009 Certificate of Obligation Bonds. These amounts are shown as Operating Grants and Contributions to offset Interest and Fees Related to Debt under the governmental activities.

Lease Obligations:

The assets acquired through lease obligations are as follows:

Cash and Capital Assets	Governmental Activities	Business-Type Activities
Cash with Escrow Agent	\$ 394,925	\$ 816,516
Machinery and Equipment	321,150	(81,652)
Less: Accumulated Depreciation	0	
Totals	\$ 716,075	\$ 734,864

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Commitments under lease obligation agreements for machinery and equipment provide for minimum future lease payments as of September 30, 2018, are as follows:

	Governmental Activities		
	Principal	Interest	Total
Year Ending September 30,			
2019	\$ 70,712	\$ 13,706	\$ 84,418
2020	62,512	21,906	84,418
2021	64,634	19,785	84,419
2022	66,828	17,591	84,419
2023	69,096	15,322	84,418
2024-2028	382,293	39,796	422,089
Totals	\$ 716,075	\$ 128,106	\$ 844,181

	Business-Type Activities		
	Principal	Interest	Total
Year Ending September 30,			
2019	\$ 162,153	\$ 14,706	\$ 176,859
2020	155,958	20,900	176,858
2021	160,940	15,919	176,859
2022	166,080	10,779	176,859
2023	171,385	5,474	176,859
Totals	\$ 816,516	\$ 67,778	\$ 884,294

J. Pension Plan

Plan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

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.

Currently the City has adopted the following provisions related to the pension plan:

	<u>December 31, 2017</u>
Employee Deposit Rate	6%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5
Service Requirement Eligibility (Expressed as Age / Years of Service)	60/5,0/20
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to Retirees)	70% of CPI

Employees Covered by Benefit Terms

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	53
Inactive Employees Entitled to but not Yet Receiving Benefits	30
Active Employees	<u>93</u>
Total Plan Employees	<u><u>176</u></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% of their annual gross earnings during the fiscal year. The required contribution rates for the City were 12.23% and 12.33% in calendar years 2017 and 2018, respectively. The City’s contributions to TMRS for the year ended September 30, 2018, were \$607,218, and were equal to the required contributions.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

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 NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

Inflation	2.5% per year
Overall Payroll Growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Amortization Period	28 years

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

Actuarial assumptions used in the December 31, 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).

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
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%

Discount Rate

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

Changes in Net Pension Asset (Liability)

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Asset (Liability)</u>
Balance 12/31/2016	\$ 26,676,736	\$ 23,665,267	\$ (3,011,469)
Service Cost	689,896		(689,896)
Interest (on the Total Pension Liability)	1,745,899		(1,745,899)
Difference Between Expected and Actual Expenses	(498,031)		498,031
Contributions - Employer		593,349	593,349
Contributions - Employee		291,095	291,095
Net Investment Income		3,201,565	3,201,565
Benefit Payments	(1,171,319)	(1,171,319)	
Administrative Expense		(16,589)	(16,589)
Other		1,095	1,095
Balance 12/31/2017	<u>\$ 27,443,181</u>	<u>\$ 26,564,463</u>	<u>\$ (878,718)</u>

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

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:

<u>1% Decrease</u>	<u>Current Rate Assumption</u>	<u>1% Increase</u>
\$ (4,729,292) \$	(878,718) \$	\$ 2,272,294

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, Deferred Outflows, and Deferred Inflows Related to Pensions

For the year ended September 30, 2018, the City recognized pension expense of \$538,205 and calculated as shown below:

Total Service Cost	\$ 689,896
Interest on the Total Pension Liability	1,745,899
Employee Contributions (Reduction of Expense)	(291,095)
Projected Earnings on Plan Investments (Reduction of Expense)	(1,559,004)
Administrative Expense	16,589
Other Changes in Fiduciary Net Position	(895)
Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	(82,700)
Recognition of Current Year Outflow (Inflow) of Resources-Assets	<u>19,515</u>
Total Pension Expense	<u>\$ 538,205</u>

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

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/(Inflows) of Resources - Pension Plan	Plan Year	Amount	Remaining Amortization Period
Employer Contribution Deferrals	2018	\$ 461,863	1.000
Differences Between Projected and Actual Investment Earnings	2014	(12,767)	1.000
Differences Between Projected and Actual Investment Earnings	2015	(22,649)	2.000
Differences Between Projected and Actual Investment Earnings	2016	31,565	3.000
Differences Between Projected and Actual Investment Earnings	2017	(398,227)	4.000
Differences Between Expected and Actual Economic Experience	2014	52,806	1.260
Differences Between Expected and Actual Economic Experience	2015	591,644	2.260
Differences Between Expected and Actual Economic Experience	2016	(1,133)	3.110
Differences Between Expected and Actual Economic Experience	2017	(1,314,049)	3.990
Difference in Assumptions	2015	61,330	2.260
Total Deferred Outflows/(Inflows) of Resources		\$ (549,617)	

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year	Amortization of Deferred Outflows
2019	\$ 398,928
2020	(108,244)
2021	(414,097)
2022	(426,204)
2023	0
	\$ (549,617)

J. Other Postemployment Benefits (OPEB)

Plan Description:

Texas Municipal Retirement System (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 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.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

The member 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 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 retiree term life insurance during employees' entire careers.

Benefits Provided:

The plan provides a \$7,500 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the SDBF. The OPEB benefit is a fixed \$7,500 lump-sum benefit and no future increases are assumed in the benefit amount.

The SDBF fund does not meet the requirements of a trust under Paragraph 4b of GASB No. 75, as the assets of the SDBF can be used to pay active SDBF benefits which are not part of the OPEB plan. The contributions for retiree SDBF coverage are assigned to the OPEB plan under GASB 75 and are used to determine the benefit payments shown in the changes in the total OPEB liability.

Benefit terms are established under the TMRS Act. Participation in the retiree SDBF is optional and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year. The City's contribution rate for the retiree SDBF program is calculated annually on an actuarial basis, and is equal to the cost of providing a one-year death benefit equal to \$7,500.

Employees Covered by Benefit Terms:

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	32
Inactive Employees Entitled to but not Yet Receiving Benefits	14
Active Employees	93
Total Plan Employees	<u>139</u>

Total OPEB Liability:

The City's total OPEB liability of \$234,955 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Actuarial Assumptions:

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	
Recognition of Economic/Demographic Gains and Losses and Assuptions	Straight-Line Amortization over Expected Working Life
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Discount Rate	3.31%
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.

The TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.31% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2017. At transition, GASB 75 also requires that the Total OPEB Liability (TOL) as of the prior fiscal year end be estimated based on the 20 Year Bond GO Index.

Annuity Purchase Rates:

Annuity purchase rates are used to determine the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027 the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Experience Studies:

Actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. TMRS uses the experience studies as a basis for determining assumptions, except where required to be treated different by GASB 75.

Changes in the Total OPEB Liability:

Balance as of December 31, 2016	\$	198,309
Changes for the year:		
Service Cost		11,159
Interest on Total OPEB Liability		7,680
Effect of Assumptions Changes or Inputs		19,263
Benefit Payments		<u>(1,456)</u>
Balance as of December 31, 2017	\$	<u>234,955</u>

Changes of assumptions or other inputs reflect a change in the discount rate from 2016 to 2017.

There were no changes of benefit terms that affected measurement during the measurement period.

Sensitivity Analysis:

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 3.31%, as well as what the 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. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Total OPEB Liability	\$ <u>(283,902)</u>	\$ <u>(234,955)</u>	\$ <u>(196,642)</u>

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

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 \$21,955. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Assumptions	\$ 16,146	\$
Contributions Made Subsequent to Measurement Date	<u>1,124</u>	
	<u>\$ 17,270</u>	<u>\$ 0</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB benefits will be recognized in OPEB expense as follows:

	<u>OPEB Expense Amount</u>
2018	\$ 4,241
2019	3,117
2020	3,117
2021	3,117
2022	3,117
Thereafter	<u>561</u>
	<u>\$ 17,270</u>

K. Commitments, Contingencies, and Subsequent Events

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

The City has no litigation pending which would have a material impact on the financial statements.

The City has evaluated subsequent events through February 25, 2019, the date which the financial statements were available to be issued.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

L. Closure and Post Closure Care Costs

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City will start reporting a portion of these closure and post closure care costs in 2019 and thereafter, as an operating expense in each period based on landfill capacity used as of each balance sheet date. No amounts were recorded in 2018, since the percentage used was not material to the total capacity. The City will recognize the estimated cost of closure and post closure care of \$791,316 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care at September 30, 2018. Actual costs in the future may be higher due to inflation, changes in technology, or changes in regulations.

M. Prior Period Adjustment

During the year the City adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the effect of adopting this standard reduced beginning net position by \$198,308 for the primary government.

N. Undivided Interests Related Party

The City and Hockley County both own a 50% undivided interest in the real property of the Airport. Total net capital assets of the Airport are \$4,652,070, with no related debt, at September 30, 2018. The total net capital assets are included in the proprietary funds and in the business-type activities of the primary government in the City's statement of net position. The City and the County have always equally shared the responsibilities and benefits in regards to the undivided interests ownership and joint operations. While the City and the County share equally in all decision making, the City accepted the mantle of adopting government regulations to facilitate airport operations and for the accounting function.

O. Transfer of Fund Balances and Net Position

During the year ended September 30, 2018, the City transferred the airport activities out of the general fund and into a proprietary fund where it is now being accounted for. Fund balance totaling \$91,305 was transferred to the proprietary funds out of the general fund and \$4,725,966 of governmental activities net position was transferred to the business-type activities net position. Refer to pages 5, 8, and 11 for the financial presentation of this transfer.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LEVELLAND, TEXAS
DEFINED BENEFIT RETIREMENT PLAN

SCHEDULE OF CHANGES IN THE PLAN'S NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>
	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability
Service Cost	\$ 603,817	\$ 675,914	\$ 694,574	\$ 689,896
Interest	1,565,280	1,627,583	1,651,900	1,745,899
Benefit Payments/Refunds of Employee Contributions	(1,078,384)	(891,337)	(801,874)	(1,171,319)
Differences between Expected and Actual Experience	(54,713)	(53,434)	51,860	(498,031)
Changes of Assumptions		144,698		
Other - Proportionate Share Adjustment		(17,433)	(40,143)	(1,935)
Net Change	\$ 1,036,000	\$ 1,485,991	\$ 1,556,317	\$ 764,510
Beginning Balance	22,598,428	23,634,428	25,120,419	26,676,736
Ending Balance	<u>\$ 23,634,428</u>	<u>\$ 25,120,419</u>	<u>\$ 26,676,736</u>	<u>\$ 27,441,246</u>
	<u>Fiduciary</u>	<u>Fiduciary</u>	<u>Fiduciary</u>	<u>Fiduciary</u>
	Net Position	Net Position	Net Position	Net Position
Employer Contributions	\$ 575,137	\$ 600,220	\$ 581,693	\$ 593,349
Employee Contributions	277,347	291,133	292,431	291,095
Net Investment Income	1,210,932	32,287	1,459,662	3,201,565
Benefit Payments/Refunds of Employee Contributions	(1,078,384)	(891,337)	(801,874)	(1,171,319)
Administration Expenses	(12,643)	(19,666)	(16,434)	(16,589)
Other	(1,039)	(972)	(887)	(840)
Net Change	\$ 971,350	\$ 11,665	\$ 1,514,591	\$ 2,897,261
Beginning Balance	21,167,661	22,139,011	22,150,676	23,665,267
Ending Balance	<u>\$ 22,139,011</u>	<u>\$ 22,150,676</u>	<u>\$ 23,665,267</u>	<u>\$ 26,562,528</u>
Net Pension Asset (Liability)	<u>\$ (1,495,417)</u>	<u>\$ (2,969,743)</u>	<u>\$ (3,011,469)</u>	<u>\$ (878,718)</u>
Fiduciary Net Position as a Percentage of Total Pension Liability	93.67%	88.18%	88.71%	96.80%
Covered Employee Payroll	\$ 4,609,065	\$ 4,852,217	\$ 4,998,910	\$ 4,851,588
Net Pension Liability as a Percentage of Covered Employee Payroll	-32.45%	-61.20%	-60.24%	-18.11%

Note: Only four years of GASB 68 Data Available as of 12/31/2017. The remaining six years of data will be built on a go forward basis.

The accompanying notes are an integral part of this statement.

**CITY OF LEVELLAND, TEXAS
DEFINED BENEFIT RETIREMENT PLAN**

**SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

REQUIRED SUPPLEMENTARY INFORMATION

	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018</u>
Actuarially Determined Contribution	\$ 608,830	\$ 608,954	\$ 604,475	\$ 607,218
Actual Contributions	<u>608,830</u>	<u>608,954</u>	<u>604,475</u>	<u>607,218</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Employee Payroll	\$ 4,843,874	\$ 5,047,446	\$ 4,971,285	\$ 4,934,357
Contributions as a Percentage of Covered Employee Payroll	12.57%	12.06%	12.16%	12.31%

Note: Only four years of GASB 68 Data Available as of 09/30/2018. The remaining six years of Data will be built on a go forward basis.

The accompanying notes are an integral part of this statement.

CITY OF LEVELLAND, TEXAS
SUPPLEMENTAL DEATH BENEFIT FUND

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

	<u>12/31/2017</u>
	<u>Total OPEB</u>
	<u>Liability</u>
Service Cost	\$ 11,159
Interest	7,680
Benefit Payments	(1,456)
Changes in Assumptions	<u>19,263</u>
Net Change	\$ 36,646
Beginning Balance	198,309
Ending Balance	<u>\$ 234,955</u>
Total OPEB Liability	<u>\$ 234,955</u>
Covered Employee Payroll	\$ 4,851,588
Total OPEB Liability as a Percentage of Covered Employee Payroll	4.84%

Note: Only one year of GASB 75 Data Available as of 12/31/2017. The remaining nine years of data will be built on a go forward basis.

CITY OF LEVELLAND, TEXAS

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

	Original Budget	Amended Budget	Actual	Variance with Amended Budget- Positive (Negative)
REVENUE				
Taxes:				
Property Taxes	\$ 3,528,086	\$ 3,528,086	\$ 3,685,868	\$ 157,782
General Sales Taxes	2,342,500	2,342,500	3,333,679	991,179
Gross Receipts Business Tax	760,000	760,000	836,069	76,069
Intergovernmental Revenues and Grants	287,101	356,481	430,292	73,811
Charges for Services	5,000	5,000	17,296	12,296
Fines and Fees	167,820	167,820	192,725	24,905
Investment Earnings	35,000	35,000	45,230	10,230
Rents and Royalties	22,500	22,500	66,398	43,898
Miscellaneous	40,000	377,736	348,827	(28,909)
Total Revenue	<u>\$ 7,188,007</u>	<u>\$ 7,595,123</u>	<u>\$ 8,956,384</u>	<u>\$ 1,361,261</u>
EXPENDITURES				
Legislative	\$ 128,463	\$ 128,463	\$ 104,719	\$ 23,744
City Manager	196,304	196,304	229,768	(33,464)
City Secretary	156,819	156,819	155,987	832
Finance	182,163	182,163	165,561	16,602
Municipal Court	149,298	149,298	147,237	2,061
Fire	1,913,729	1,977,023	1,506,020	471,003
Police	3,179,706	3,227,175	3,135,512	91,663
Inspections	439,511	439,511	448,272	(8,761)
Emergency and Health Services	228,830	228,830	188,809	40,021
Street	1,244,854	1,312,294	970,869	341,425
Shop	96,872	96,872	91,208	5,664
Park	702,416	983,122	943,014	40,108
Information Technology	78,990	78,990	60,603	18,387
Building Services	176,342	176,342	130,496	45,846
Engineering	80,000	80,000	82,890	(2,890)
Administration Services	250,106	250,106	213,811	36,295
Legal	96,883	96,883	95,461	1,422
Debt Service - Principal	100,000	100,000		100,000
Total Expenditures	<u>\$ 9,401,286</u>	<u>\$ 9,860,195</u>	<u>\$ 8,670,237</u>	<u>\$ 1,189,958</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	<u>\$ (2,213,279)</u>	<u>\$ (2,265,072)</u>	<u>\$ 286,147</u>	<u>\$ 2,551,219</u>
OTHER FINANCING SOURCES				
Transfers In (Out)	\$	\$ (50,000)	\$ (17,565)	\$ 32,435
Proceeds from Debt Issue	722,000	722,000	716,075	(5,925)
Proceeds from the Sale of Capital Assets	1,000	1,000	27,200	26,200
Total Other Financing Sources	<u>\$ 723,000</u>	<u>\$ 673,000</u>	<u>\$ 725,710</u>	<u>\$ 52,710</u>
Net Change in Fund Balance	\$ (1,490,279)	\$ (1,592,072)	\$ 1,011,857	\$ 2,603,929
Fund Balances - Beginning	3,636,592	3,636,592	3,636,592	
Transfer Fund Balance to Proprietary Fund	(91,305)	(91,305)	(91,305)	
Fund Balances - Ending	<u>\$ 2,055,008</u>	<u>\$ 1,953,215</u>	<u>\$ 4,557,144</u>	<u>\$ 2,603,929</u>

The accompanying notes are an integral part of this statement.

CITY OF LEVELLAND, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN
SEPTEMBER 30, 2018

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal.
Amortization Method	Level Percentage of Payroll, Closed.
Remaining Amortization Period	28 years
Asset Valuation Method	Ten Year smoothed market; 15% soft corridor.
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Changes in Assumptions:

There were no changes in assumptions during the year.

Benefits Changes:

There were no benefit changes during the year.

CITY OF LEVELLAND, TEXAS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SEPTEMBER 30, 2018**

BUDGETARY DATA

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Commission is then called for the purpose of adopting the proposed budget. At least 10 days public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. The legal level of control is at the function level. All budget appropriations lapse at year end.

The budget is presented on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

SUPPLEMENTARY INFORMATION

CITY OF LEVELLAND, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund			Tax Increment Financing #2	Total Nonmajor Governmental Funds (See Pg. 6)
			Civic Improvement	Texas Capital Fund - Main Street	Tax Increment Financing #1		
ASSETS							
Assets:							
Cash and Cash Equivalents	\$ 793,985	\$ 11,501	\$ 140,028	\$ 58,622	\$ 493,193	\$ 1,197	\$ 1,498,526
Receivables (Net of Allowance for Uncollectibles)	64,407	13,509					77,916
Intergovernmental Receivables	74,232						74,232
Total Assets	<u>\$ 932,624</u>	<u>\$ 25,010</u>	<u>\$ 140,028</u>	<u>\$ 58,622</u>	<u>\$ 493,193</u>	<u>\$ 1,197</u>	<u>\$ 1,650,674</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:							
Liabilities:							
Accounts Payable	\$ 8,332		\$ 308	\$ 32,741			\$ 41,381
Accrued Wages	3,431						3,431
Due to Other Funds	74,165						74,165
Unearned Revenue	207						207
Total Liabilities	<u>\$ 86,135</u>	<u>\$ 0</u>	<u>\$ 308</u>	<u>\$ 32,741</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 119,184</u>
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue - Property Taxes	\$ 2,776	\$ 13,509					\$ 16,285
	<u>\$ 2,776</u>	<u>\$ 13,509</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,285</u>
Fund Balances:							
Restricted Fund Balances:							
Restricted for Enabling Legislation	\$ 149,834						\$ 149,834
Restricted for Economic Development	344,492						344,492
Restricted for Donor Requirements	86,658						86,658
Restricted for Debt Service		11,501					11,501
Committed Fund Balances:							
Committed for Expansion and Improvements			139,720	25,881	493,193	1,197	659,991
Committed for Cemetery Operations	262,729						262,729
Total Fund Balances	<u>\$ 843,713</u>	<u>\$ 11,501</u>	<u>\$ 139,720</u>	<u>\$ 25,881</u>	<u>\$ 493,193</u>	<u>\$ 1,197</u>	<u>\$ 1,515,205</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 932,624</u>	<u>\$ 25,010</u>	<u>\$ 140,028</u>	<u>\$ 58,622</u>	<u>\$ 493,193</u>	<u>\$ 1,197</u>	<u>\$ 1,650,674</u>

CITY OF LEVELLAND, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund				Tax Notes	Total Nonmajor Governmental Funds (See Pg. 8)
			Civic Improvement	Texas Capital Fund - Main Street	Tax Increment Financing #1	Tax Increment Financing #2		
Revenue:								
Taxes								
General Property Taxes	\$ 86,018	\$ 413,599	\$	\$	\$ 112,686	\$ 184,476	\$	\$ 796,779
Motel Occupancy Taxes	170,165							170,165
Intergovernmental	265,058	420,336		11,250				696,644
Fines and Fees	163,006							163,006
Investment Earnings	9,021	1,231	1,552	592	4,276	108	1,364	18,144
Rents and Royalties	6,177		8,306					14,483
Miscellaneous	6,407							6,407
Contributions and Donations	70,286				7,650			77,936
Total Revenue	\$ 776,138	\$ 835,166	\$ 9,858	\$ 11,842	\$ 124,612	\$ 184,584	\$ 1,364	\$ 1,943,564
Expenditures:								
Current								
General Government	\$ 0	\$ 3,500	\$	\$	\$	\$	\$ 92,982	\$ 96,482
Public Safety	63,419		4,751					68,170
Highways and Streets	33,112			55,509				88,621
Recreation and Parks	132,541							132,541
Economic Development	262,981							262,981
Cemetery	306,988							306,988
Debt Service								0
Principal		1,175,000						1,175,000
Interest		304,015						304,015
Fiscal Agent's Fees		2,050						2,050
Total Expenditures	\$ 799,041	\$ 1,484,565	\$ 4,751	\$ 55,509	\$ 0	\$ 0	\$ 92,982	\$ 2,436,848
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (22,903)	\$ (649,399)	\$ 5,107	\$ (43,667)	\$ 124,612	\$ 184,584	\$ (91,618)	\$ (493,284)
Other Financing Sources (Uses):								
Transfers In (Out)	\$ 300	\$ 644,705	\$	\$ 50,000	\$	\$ (184,705)	\$ 91,618	\$ 601,918
Sale of Assets	14,000							14,000
Total Other Financing Sources (Uses)	\$ 14,300	\$ 644,705	\$ 0	\$ 50,000	\$ 0	\$ (184,705)	\$ 91,618	\$ 615,918
Net Change in Fund Balances	\$ (8,603)	\$ (4,694)	\$ 5,107	\$ 6,333	\$ 124,612	\$ (121)	\$ 0	\$ 122,634
Fund Balances - Beginning	852,316	16,195	134,613	19,548	368,581	1,318		1,392,571
Fund Balances - Ending	<u>\$ 843,713</u>	<u>\$ 11,501</u>	<u>\$ 139,720</u>	<u>\$ 25,881</u>	<u>\$ 493,193</u>	<u>\$ 1,197</u>	<u>\$ 0</u>	<u>\$ 1,515,205</u>

-48-
CITY OF LEVELLAND, TEXAS

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2018**

ASSETS	Cemetery	LEOSE	Court Security	Time Payment Court Fee	Motel Occupancy	Court Technology	Police Special	Park Grants and Contribution	Incentive Grant-Main Street	Mainstreet Activities	Federal Forfeitures	Total Nonmajor Revenue Funds (See Pg. 40)
Assets:												
Cash and Cash Equivalents	\$ 264,568	\$ 4,122	\$ 3,561	\$ 3,650	\$ 293,985	\$ 6,365	\$ 8,889	\$ 62,861	\$ 836	\$ 21,901	\$ 123,247	\$ 793,985
Receivables (Net of Allowance for Uncollectibles)	7,700				55,507					1,200		64,407
Intergovernmental Receivables								74,232				74,232
Total Assets	\$ 272,268	\$ 4,122	\$ 3,561	\$ 3,650	\$ 349,492	\$ 6,365	\$ 8,889	\$ 137,093	\$ 836	\$ 23,101	\$ 123,247	\$ 932,624
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:												
Liabilities:												
Accounts Payable	\$ 3,332	\$	\$	\$	5,000	\$	\$	\$	\$	\$	\$	8,332
Accrued Wages	3,431											3,431
Due to Other Funds								74,165				74,165
Unearned Revenue									207			207
Total Liabilities	\$ 6,763	\$ 0	\$ 0	\$ 0	\$ 5,000	\$ 0	\$ 0	\$ 74,165	\$ 207	\$ 0	\$ 0	\$ 86,135
DEFERRED INFLOWS OF RESOURCES:												
Unavailable Revenue - Property Taxes	\$ 2,776	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	2,776
	<u>2,776</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,776</u>
Fund Balances:												
Restricted Fund Balances:												
Restricted for Enabling Legislation	\$	\$ 4,122	\$ 3,561	\$ 3,650	\$	\$ 6,365	\$ 8,889	\$	\$	\$	\$ 123,247	\$ 149,834
Restricted for Economic Development					344,492							344,492
Restricted for Donor Requirements								62,928	629	23,101		86,658
Committed Fund Balances:												
Committed for Cemetery Operations	<u>262,729</u>											262,729
Total Fund Balances	\$ 262,729	\$ 4,122	\$ 3,561	\$ 3,650	\$ 344,492	\$ 6,365	\$ 8,889	\$ 62,928	\$ 629	\$ 23,101	\$ 123,247	\$ 843,713
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 272,268	\$ 4,122	\$ 3,561	\$ 3,650	\$ 349,492	\$ 6,365	\$ 8,889	\$ 137,093	\$ 836	\$ 23,101	\$ 123,247	\$ 932,624

-49-
CITY OF LEVELLAND, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Cemetery	LEOSE	Court Security	Time Payment Court Fee	Motel Occupancy	Court Technology	Police Special	Park Grants and Contribution	Police Grants	Incentive Grant- Main Street	Mainstreet Activities	Federal Forfeitures	Total Nonmajor Revenue Funds (See Pg. 41)
Revenue:													
Taxes													
General Property Taxes	\$ 86,018	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 86,018
Motel Occupancy Taxes					170,165								170,165
Intergovernmental		2,017						120,735				142,306	265,058
Fines and Fees	144,771		2,888	745		3,852	10,750						163,006
Investment Earnings	3,308	35	3	32	3,803	21	86	665		8	230	830	9,021
Rents and Royalties	6,177												6,177
Miscellaneous	6,407												6,407
Contributions and Donations								23,603	5,000		41,683		70,286
Total Revenue	\$ 246,681	\$ 2,052	\$ 2,891	\$ 777	\$ 173,968	\$ 3,873	\$ 10,836	\$ 145,003	\$ 5,000	\$ 8	\$ 41,913	\$ 143,136	\$ 776,138
Expenditures:													
Current													
Public Safety	\$	\$ 650	\$	\$	\$	\$	\$ 5,120	\$	\$ 5,000	\$	\$	\$ 52,649	\$ 63,419
Highways and Streets											33,112		33,112
Recreation and Parks								132,541					132,541
Economic Development					262,981								262,981
Cemetery	306,988												306,988
Total Expenditures	\$ 306,988	\$ 650	\$ 0	\$ 0	\$ 262,981	\$ 0	\$ 5,120	\$ 132,541	\$ 5,000	\$ 0	\$ 33,112	\$ 52,649	\$ 799,041
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (60,307)	\$ 1,402	\$ 2,891	\$ 777	\$ (89,013)	\$ 3,873	\$ 5,716	\$ 12,462	\$ 0	\$ 8	\$ 8,801	\$ 90,487	\$ (22,903)
Other Financing Sources (Uses):													
Transfers In (Out)	\$	\$	\$	\$	\$	\$	\$	300	\$	\$	\$	\$	\$ 300
Sale of Assets												14,000	14,000
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 300	\$ 0	\$ 0	\$ 0	\$ 14,000	\$ 14,300
Net Change in Fund Balances	\$ (60,307)	\$ 1,402	\$ 2,891	\$ 777	\$ (89,013)	\$ 3,873	\$ 5,716	\$ 12,762	\$ 0	\$ 8	\$ 8,801	\$ 104,487	\$ (8,603)
Fund Balances - Beginning	323,036	2,720	670	2,873	433,505	2,492	3,173	50,166	0	621	14,300	18,760	852,316
Fund Balances - Ending	\$ 262,729	\$ 4,122	\$ 3,561	\$ 3,650	\$ 344,492	\$ 6,365	\$ 8,889	\$ 62,928	\$ 0	\$ 629	\$ 23,101	\$ 123,247	\$ 843,713

CITY OF LEVELLAND, TEXAS

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2018

	<u>Capital Equipment Reserve Fund</u>	<u>Total Internal Service Funds (See Page 10)</u>
ASSETS:		
Current Assets		
Cash and Cash Equivalents	\$ 695,315	\$ 695,315
Due from Other Funds	224,338	224,338
Advances to Other Funds	1,091,267	1,091,267
Total Current Assets	<u>\$ 2,010,920</u>	<u>\$ 2,010,920</u>
NET POSITION:		
Unrestricted Net Position	<u>\$ 2,010,920</u>	<u>\$ 2,010,920</u>
Total Net Position	<u><u>\$ 2,010,920</u></u>	<u><u>\$ 2,010,920</u></u>

CITY OF LEVELLAND, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Capital Equipment Reserve Fund	Insurance Claim Fund	Total Internal Service Funds (See Page 11)
OPERATING REVENUES:			
Total Operating Revenues	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
OPERATING EXPENSES:			
Total Operating Expenses	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Operating Income (Loss)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
NONOPERATING REVENUES (EXPENSES):			
Interest Revenue	\$ <u>6,363</u>	\$ <u>0</u>	\$ <u>6,363</u>
Total Nonoperating Revenues (Expenses)	\$ <u>6,363</u>	\$ <u>0</u>	\$ <u>6,363</u>
Income (Loss) Before Transfers	\$ 6,363	\$ 0	\$ 6,363
Transfers In (Out)	<u>28,456</u>	<u>(44,704)</u>	<u>(16,248)</u>
Change in Net Position	\$ 34,819	\$ (44,704)	\$ (9,885)
Total Net Position - Beginning	<u>1,976,101</u>	<u>44,704</u>	<u>2,020,805</u>
Total Net Position - Ending	\$ <u><u>2,010,920</u></u>	\$ <u><u>0</u></u>	\$ <u><u>2,010,920</u></u>

CITY OF LEVELLAND, TEXAS

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Capital Equipment Reserve Fund	Insurance Claim Fund	Total Internal Service Funds (See Page 11)
Cash Flows From Operating Activities			
Other Operating Cash Receipts (Payments)	\$ 0	\$ 0	\$ 0
Net Cash From Operating Activities	\$ 0	\$ 0	\$ 0
Cash Flows From Non-Capital Financing Activities:			
Cash Transfers	\$ 16,176	\$ (44,704)	\$ (28,528)
Principal Received on Loans Made to Other Funds	216,338		216,338
Net Cash From Non-Capital Financing Activities	\$ 232,514	\$ (44,704)	\$ 187,810
Cash Flows From Capital and Related Financing Activities			
Net Cash From Capital and Related Financing Activities	\$ 0	\$ 0	\$ 0
Cash Flows From Investing Activities			
Interest and Dividends on Investments	\$ 6,363	\$ 0	\$ 6,363
Net Cash From Investing Activities	\$ 6,363	\$ 0	\$ 6,363
Net Change in Cash and Cash Equivalents	\$ 238,877	\$ (44,704)	\$ 194,173
Cash and Cash Equivalents at Beginning of Year	456,438	44,704	501,142
Cash and Cash Equivalents at End of Year	\$ 695,315	\$ 0	\$ 695,315

OVERALL INTERNAL CONTROL AND COMPLIANCE SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

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

Independent Auditor's Report

To the Mayor and City Council
City of Levelland, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Levelland, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Levelland, Texas' basic financial statements and have issued our report thereon dated February 25, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

Lubbock, Texas

February 25, 2019