

**CITY OF STAFFORD, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**Year Ended September 30, 2017**  
**with Report of Independent Auditors**



**CITY OF STAFFORD, TEXAS**  
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**CITY OF STAFFORD, TEXAS**  
**PRINCIPAL OFFICIALS**

**Elected Officials**

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Leonard Scarcella	Mayor
A.J. Honore	Mayor Pro Tem
Cecil Willis	Council Member
Wen Guerra	Council Member
Ken Mathew	Council Member
Virginia Rosas	Council Member
Don Jones	Council Member

**Appointed Officials**

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Tomika Lewis	City Secretary
Chris Riggs	Building Director/ Zoning Administrator
Carolyn Entricht	Director of Television Production/ I.T.
Richard Ramirez	Chief of Police
Nicole Nguyen	Director of Municipal Court
Susan Ricks	Contract Administrator Stafford Centre and Director of Civic Center and Recreation
K. Milton Rahman	Public Works Director
Lawrence DiCamillo	Fire Chief
Patti Worfe	Executive Director of Stafford Economic Development Corporation



## **FINANCIAL SECTION**



## REPORT OF INDEPENDENT AUDITORS

To The Honorable Mayor and  
Members of City Council  
City of Stafford, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund and the aggregate remaining fund information of City of Stafford, Texas (the “City”) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

### Management’s Responsibility for the Financial Statements

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

### Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Stafford Municipal School District, a discretely presented component unit of the City which reflects 82% of total assets and 90% of total revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for that discretely presented component unit is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To The Honorable Mayor and  
Members of City Council  
City of Stafford, Texas

## **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, and the budgetary schedules and required pension system information on pages 49 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund statements and schedules and other supplementary information, and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

*Whitley Penn LLP*

Houston, Texas  
April 23, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF STAFFORD, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Stafford (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements**

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government and administration, public safety, public works, and parks and recreation. The City currently does not have any business-type activities.

The government-wide financial statements include not only the City itself (known as *the primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *discretely presented component units* is reported separately from the financial information presented for the primary government itself. The City's two discretely presented component units consist of the following: Stafford Economic Development Corporation and Stafford Municipal School District.

The government-wide financial statements can be found on pages 15 through 17 of this report.

**Fund Financial Statements**

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

**CITY OF STAFFORD, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Governmental Funds**

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

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

The City maintains ten (10) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Hotel Occupancy Tax Special Revenue Fund which are considered to be major funds. Data for the other eight (8) funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The governmental funds financial statements can be found on pages 18 through 21 of this report.

**Proprietary Funds / Internal Service Fund**

Internal service funds are maintained on the same basis of accounting as the government-wide financial statements described earlier. The City uses the internal service fund to report activities for its self-funded health insurance program to accumulate and allocate costs internally among the various governmental functions.

The basic internal service fund financial statements can be found on pages 22 through 24 of this report.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 45 of this report.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* -- Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual for both the General Fund and Hotel Occupancy Tax Special Revenue Fund, Schedule of Changes in Net Pension Liability and Contributions, and information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 49 through 53 of this report.

The *other supplemental information* is presented following the required supplementary information. These combining statements can be found on pages 56 through 59 of this report.

**CITY OF STAFFORD, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Government-wide Financial Analysis**

The following table provides a summary of the City's net position at September 30, 2017 and 2016:

**CONDENSED SCHEDULE OF NET POSITION**

*September 30, 2017 and 2016*

	<b>Governmental Activities</b>		<b>Change</b>	
	<b>2017</b>	<b>2016</b>	<b>Amount</b>	<b>Percent</b>
Current and other assets	\$ 17,450,391	\$ 20,946,411	\$ (3,496,020)	-17%
Capital assets	59,966,267	59,972,421	(6,154)	0%
<b>Total Assets</b>	<b>77,416,658</b>	<b>80,918,832</b>	<b>(3,502,174)</b>	<b>-4%</b>
<b>Deferred outflows relating to pension activities</b>	<b>2,716,344</b>	<b>3,054,369</b>	<b>(338,025)</b>	<b>-11%</b>
Current and other liabilities	3,380,478	2,450,419	930,059	38%
Long-term liabilities	3,472,882	3,599,871	(126,989)	-4%
Net pension liability	5,393,448	5,703,321	(309,873)	-5%
<b>Total Liabilities</b>	<b>12,246,808</b>	<b>11,753,611</b>	<b>493,197</b>	<b>4%</b>
<b>Deferred inflows relating to pension activities</b>	<b>354,578</b>	<b>8,045</b>	<b>346,533</b>	<b>4307%</b>
Net position:				
Net investment in capital assets	59,792,382	59,624,154	168,228	0%
Restricted	7,634,742	7,028,707	606,035	9%
Unrestricted	104,492	5,558,684	(5,454,192)	-98%
<b>Total Net Position</b>	<b>\$ 67,531,616</b>	<b>\$ 72,211,545</b>	<b>\$ (4,679,929)</b>	<b>-6%</b>

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the City of Stafford, assets and deferred outflows exceeded liabilities and deferred inflows by \$67.5 million as of September 30, 2017.

By far the largest portion of the City's net position, 89 percent reflects its net investment in capital assets (e.g., land, construction in progress, buildings, improvements other than buildings, machinery and equipment, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide services to citizens; consequently these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional 11 percent portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$0.1 million may be used to meet the government's ongoing obligations to citizens and creditors. As of September 30, 2017, the City is able to report positive balances in all three categories of net position.

**CITY OF STAFFORD, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The following table provides a summary of the City's operations for the years ended September 30, 2017 and 2016:

**CONDENSED STATEMENT OF ACTIVITIES**

*For the Years Ended September 30, 2017 and 2016*

	<b>Governmental Activities</b>		<b>Change</b>	
	<b>2017</b>	<b>2016</b>	<b>Amount</b>	<b>Percent</b>
<b>Revenues</b>				
Program revenue:				
Charges for services	\$ 5,939,203	\$ 5,284,957	\$ 654,246	12%
Operating grants and contributions	225,896	132,967	92,929	70%
Capital grants and contributions	76,519	68,974	7,545	11%
General revenues:				
Sales and use taxes	12,824,772	12,931,551	(106,779)	-1%
Other taxes	2,963,269	2,950,254	13,015	0%
Unrestricted investment earnings	110,458	39,712	70,746	178%
Miscellaneous	32,947	18,397	14,550	79%
<b>Total Revenues</b>	<b>22,173,064</b>	<b>21,426,812</b>	<b>746,252</b>	<b>3%</b>
<b>Expenses:</b>				
General Administration	3,586,050	2,735,425	850,625	31%
Finance Administration	479,140	353,961	125,179	35%
Municipal Services & Public works	6,663,254	6,096,078	567,176	9%
Police and Emergency Services	12,742,924	10,509,149	2,233,775	21%
Recreation and performing arts	864,490	611,834	252,656	41%
Stafford Centre	1,996,222	1,938,681	57,541	3%
Judicial	515,710	490,558	25,152	5%
Interest on long-term debt	5,203	10,259	(5,056)	-49%
<b>Total Expenses</b>	<b>26,852,993</b>	<b>22,745,945</b>	<b>4,107,048</b>	<b>18%</b>
Change in net position for the year	(4,679,929)	(1,319,133)	(3,360,796)	-255%
<b>Net Position - Beginning</b>	<b>72,211,545</b>	<b>73,530,678</b>	<b>(1,319,133)</b>	<b>-2%</b>
<b>Net Position - Ending</b>	<b>\$ 67,531,616</b>	<b>\$ 72,211,545</b>	<b>\$ (4,679,929)</b>	<b>-6%</b>

**CITY OF STAFFORD, TEXAS**

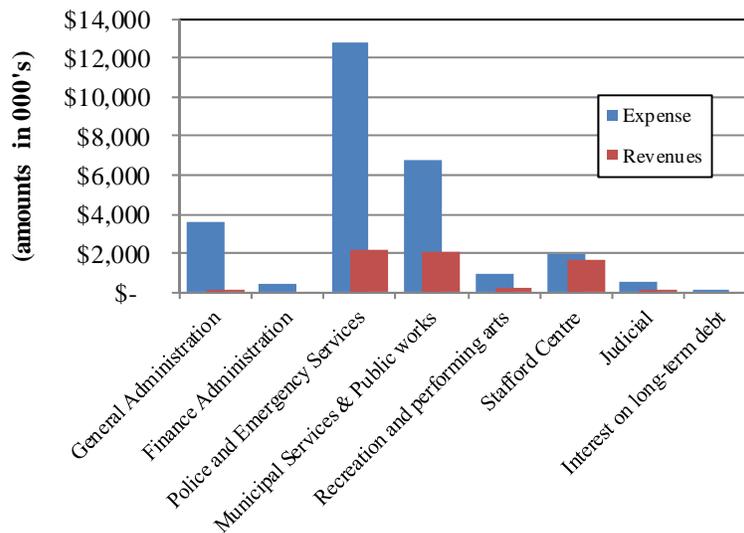
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Governmental activities**

Governmental activities decreased the City's net position by \$4,679,929. The key changes in financial activity from the prior year are as follows:

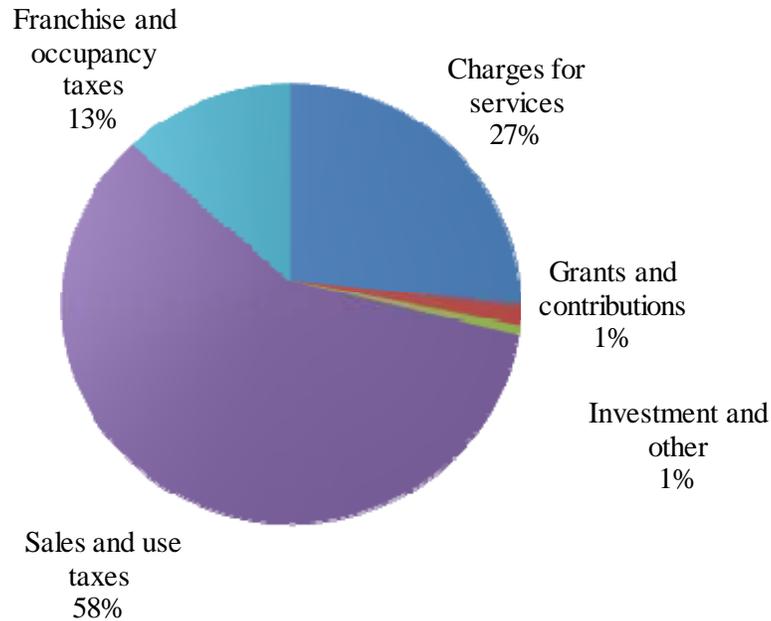
- Operating grants and contributions increased by approximately \$93,000 due primarily to a more aggressive pursuit of available grants for vehicles and other emergency equipment.
- The decrease in sales tax of \$106,779 was due primarily to the post storm effect of Hurricane Harvey on local economic conditions in the Stafford region. However the region, as well as Stafford, have been recovering quickly.
- Expenses related to most departments increased overall. Finance expenses increased because of the use of professional services during the interim search for a finance director. General government expenses increased due to personnel additions and related costs and a significant insurance cost increase.
- Expenses related to police and emergency services increased by \$2,233,775 due department wide pay increases, the recruitment of open positions, and additional full-time firefighters.
- There was also the purchase of land and buildings adjacent to the existing City Hall for approximately \$830,000. This will be used for expansion of the existing City Hall complex.

A comparison of program expenses to program revenues follows:



**CITY OF STAFFORD, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Revenue sources for governmental activities were distributed as follows:



**Financial Analysis of the City's Funds**

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

**Governmental Funds**

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14.3 million. A portion of the fund balance (\$7.6 million) is restricted by law or third-party agreements and is not available for general governmental expenditures. The remainder of the governmental fund balance of \$6.5 million is available for any lawful purpose.

The General Fund balance decreased by \$4,552,673 in the current fiscal year primarily due to an increase in police and emergency services expenditures.

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget resulted in an increase in appropriations. This increase was primarily due to increases in personnel in the Fire, Public Works and Police departments along with an increase in funding for street repairs and capital outlay for police and fire equipment.

**CITY OF STAFFORD, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Capital Assets and Debt Administration**

The City's investment in capital assets for its governmental activities as of September 30, 2017, amounted to million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements other than buildings, machinery and equipment, and infrastructure.

The following table shows the balances at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Capital Assets not being depreciated		
Land	\$ 5,786,877	\$ 4,948,125
Construction in progress	2,054,331	873,662
Capital Assets, net of depreciation		
Buildings	18,647,154	19,435,829
Improvements other than buildings	2,779,845	2,695,605
Machinery and equipment	4,183,212	4,222,976
Vehicles (capital lease)	641,631	641,631
Infrastructure	<u>25,873,217</u>	<u>27,154,593</u>
Total capital assets - Governmental Activities	<u>\$ 59,966,267</u>	<u>\$ 59,972,421</u>

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

**Long-term liabilities**

At the end of the current fiscal year, the City had a total long-term debt liability of \$3.5 million. This is a decrease from the prior year of approximately \$0.1 million, primarily due to pay down of debt. A schedule of long-term debt at September 30, 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
Capital leases payable	\$ 179,396	\$ 353,737
Sales Tax obligations	2,141,531	2,284,288
Compensated absences - sick leave	<u>1,151,955</u>	<u>961,846</u>
	<u>\$ 3,472,882</u>	<u>\$ 3,599,871</u>

Additional information on the City's long-term debt can be found in Note 7 to the financial statements of this report.

**CITY OF STAFFORD, TEXAS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Economic Factors and Next Year's (2016-2017) Budgets and Rates**

In the 2017-18 Budget, General Fund revenues are budgeted to increase by approximately 10.95% from the 2016-17 budget year primarily due to a budgeted increases in fire marshal code enforcement, violations and fines. There is also an anticipated increase from the sale of land, however, that property is now considered best used by the City of City Hall expansion. Appropriations are budgeted to decrease by approximately 17% from the 2015-16 budget year.

In preparing the 2017-18 budget, management considered certain economic factors including:

- Increase in code enforcement, violation and fines due to the addition of a Fire Marshall Department
- Post Hurricane Harvey robust economic activity
- Reimbursements from FEMA
- Increase in salary to all full-time employees
- Sales tax realization
- Ongoing drainage projects
- Falling oil prices

**Request for Information**

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Stafford, 2610 South Main, Stafford, Texas, 77477.

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## **BASIC FINANCIAL STATEMENTS**

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**CITY OF STAFFORD, TEXAS**  
**STATEMENT OF NET POSITION**  
*September 30, 2017*

	<b>Primary Government</b>	<b>Component Units</b>	
	<b>Governmental Activities</b>	<b>Stafford Economic Development Corporation</b>	<b>Stafford Municipal School District</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 14,390,123	\$ 14,906,661	\$ 17,010,881
Receivables (Net of Allowance for Uncollectibles)	2,863,070	649,211	1,544,443
Due from primary government		558,868	
Inventories	23,870		
Prepaid items	173,328		34,449
Capital assets, not subject to depreciation:	7,841,208		
Capital assets, net of depreciation:	<u>52,125,059</u>		<u>56,826,163</u>
<b>Total Capital Assets</b>	<u>59,966,267</u>		<u>56,826,163</u>
<b>Total Assets</b>	<u>77,416,658</u>	<u>16,114,740</u>	<u>75,415,936</u>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding		1,327,907	1,337,428
Deferred outflows relating to pension activities	<u>2,716,344</u>		<u>3,056,076</u>
<b>Total Deferred Outflows of Resources</b>	<u>2,716,344</u>	<u>1,327,907</u>	<u>4,393,504</u>
<b>Liabilities</b>			
Accounts payable and accrued expenses	2,391,705	635,527	2,227,485
Due to component units	558,868		
Unearned revenues	429,905		32,977
<b>Long-term liabilities:</b>			
Due within one year	358,120	982,409	1,989,874
Due in more than one year	3,114,762	18,233,925	56,497,553
Net Pension Liability	<u>5,393,448</u>		<u>7,242,566</u>
<b>Total Liabilities</b>	<u>12,246,808</u>	<u>19,851,861</u>	<u>67,990,455</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows relating to pension activities	<u>354,578</u>		<u>417,587</u>
<b>Total Deferred Inflows of Resources</b>	<u>354,578</u>		<u>417,587</u>
<b>Net Position</b>			
Net investment in capital assets	59,792,382		(4,628)
Restricted for:			
Grants			743,191
Debt service			2,310,073
Municipal courts	108,925		
Public safety	194,242		
Community projects	166,720		
Tourism	7,164,855		
Unrestricted	<u>104,492</u>	<u>(2,409,214)</u>	<u>8,352,762</u>
<b>Total Net Position</b>	<u>\$ 67,531,616</u>	<u>\$ (2,409,214)</u>	<u>\$ 11,401,398</u>

*See Notes To Basic Financial Statements.*

**CITY OF STAFFORD, TEXAS**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended September 30, 2017*

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenue</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary government</b>				
Governmental Activities:				
General Administration	\$ 3,586,050	\$	\$ 39,381	\$
Finance Administration	479,140			
Municipal Services & Public works	6,663,254	1,969,667		76,519
Police and Emergency Services	12,742,924	2,061,101	186,515	
Recreation and performing arts	864,490	215,045		
Stafford Centre	1,996,222	1,628,701		
Judicial	515,710	64,689		
Interest on long-term debt	5,203			
<b>Total governmental activities</b>	<b>26,852,993</b>	<b>5,939,203</b>	<b>225,896</b>	<b>76,519</b>
<b>Component Units</b>				
Stafford Economic Development Corporation	3,809,883			385,801
Stafford Municipal School District	40,070,275	941,508	4,791,455	
<b>Total component units</b>	<b>43,880,158</b>	<b>941,508</b>	<b>4,791,455</b>	<b>385,801</b>
<b>Total</b>	<b>\$ 70,733,151</b>	<b>\$ 6,880,711</b>	<b>\$ 5,017,351</b>	<b>\$ 462,320</b>

**General revenues:**

Taxes:

- Sales and use tax
- Franchise taxes
- Occupancy and other taxes
- Property taxes

Unrestricted investment earnings

Grants and contributions not restricted

Miscellaneous

**Total general revenues**

Change in net position

**Net Position - Beginning**

**Net Position - Ending**

*See Notes to Basic Financial Statements.*

<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>Primary</b>	<b>Component Units</b>	
<b>Government</b>	<b>Stafford Economic Development Corporation</b>	<b>Stafford Municipal School District</b>
<b>Governmental Activities</b>		
\$ (3,546,669)		
(479,140)		
(4,617,068)		
(10,495,308)		
(649,445)		
(367,521)		
(451,021)		
(5,203)		
<u>(20,611,375)</u>		
	\$ (3,424,082)	\$ (34,337,312)
	<u>(3,424,082)</u>	<u>(34,337,312)</u>
<u>\$ (20,611,375)</u>	<u>\$ (3,424,082)</u>	<u>\$ (34,337,312)</u>
12,824,772	4,189,643	
1,772,553		
1,190,716		
		28,569,084
110,458	116,288	126,734
		3,441,371
32,947	24,043	209,571
<u>15,931,446</u>	<u>4,329,974</u>	<u>32,346,760</u>
(4,679,929)	905,892	(1,990,552)
72,211,545	(3,315,106)	13,391,950
<u>\$ 67,531,616</u>	<u>\$ (2,409,214)</u>	<u>\$ 11,401,398</u>

**CITY OF STAFFORD, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

September 30, 2017

	<u>General Fund</u>	<u>Hotel Occupancy Tax Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 6,231,782	\$ 7,216,875	\$ 348,052	\$ 13,796,709
Taxes receivable, net	1,947,633	165,105	26,614	2,139,352
Other receivables	671,412			671,412
Due from other governments	89,664			89,664
Due from other funds	1,308,811		168,091	1,476,902
Inventories	23,870			23,870
Prepaid items	173,328			173,328
<b>Total Assets</b>	<u>\$ 10,446,500</u>	<u>\$ 7,381,980</u>	<u>\$ 542,757</u>	<u>\$ 18,371,237</u>
<b>Liabilities</b>				
Accounts payable	\$ 1,852,397	\$	\$ 400	\$ 1,852,797
Accrued expenditures	257,504			257,504
Due to other funds	168,091	217,125	34,452	419,668
Due to component unit	596,460			596,460
Unearned revenue	424,012		5,893	429,905
<b>Total Liabilities</b>	<u>3,298,464</u>	<u>217,125</u>	<u>40,745</u>	<u>3,556,334</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenues - fines and fees	439,448		26,614	466,062
<b>Total Deferred Inflows of Resources</b>	<u>439,448</u>		<u>26,614</u>	<u>466,062</u>
<b>Fund balances</b>				
Nonspendable	197,198			197,198
Restricted for:				
Capital Projects			5,511	5,511
Municipal court programs			108,925	108,925
Public safety programs			194,242	194,242
Municipal services			166,720	166,720
Tourism		7,164,855		7,164,855
Unassigned	6,511,390			6,511,390
<b>Total Fund Balances</b>	<u>6,708,588</u>	<u>7,164,855</u>	<u>475,398</u>	<u>14,348,841</u>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<u>\$ 10,446,500</u>	<u>\$ 7,381,980</u>	<u>\$ 542,757</u>	<u>\$ 18,371,237</u>

See Notes to Basic Financial Statements.

**CITY OF STAFFORD, TEXAS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION  
September 30, 2017**

Total fund balance, governmental funds \$ 14,348,841

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 59,966,267

Uncollected fines and forfeitures and other long-term receivables are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position. 466,062

Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.

Capital leases	(179,396)
Excess sales tax due to State	(2,141,531)
Accrued long-term interest	(5,202)
Accrued compensated absences	(1,151,955)

Net pension liability and related deferred outflows and inflows do not represent assets or liabilities in the current period and are not recognized in the governmental fund financial statements. (3,031,682)

Net Position of Internal Service Fund not reported in governmental funds (739,788)

Net Position of Governmental Activities in the Statement of Net Position \$ 67,531,616

*See Notes to Basic Financial Statements.*

**CITY OF STAFFORD, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2017**

	<u>General Fund</u>	<u>Hotel Occupancy Tax Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Taxes:				
Sales and use tax	\$ 12,824,767	\$ 1,190,716	\$	\$ 14,015,483
Franchise taxes	1,772,553			1,772,553
Fines and forfeitures	1,344,943		64,689	1,409,632
Licenses and permits	903,612			903,612
Intergovernmental	1,281,882			1,281,882
Charges for services	2,357,940		10,000	2,367,940
Interest	50,498	52,196	2,586	105,280
Miscellaneous	103,365		146,613	249,978
<b>Total Revenues</b>	<u>20,639,560</u>	<u>1,242,912</u>	<u>223,888</u>	<u>22,106,360</u>
<b>Expenditures</b>				
Current:				
General administration	3,036,021			3,036,021
Financial administration	469,696			469,696
Municipal services and public works	4,404,879		84,699	4,489,578
Police and emergency services	11,160,924		21,989	11,182,913
Recreation and performing arts	365,749	639,363		1,005,112
Stafford Centre	1,628,701			1,628,701
Judicial	499,861		53,829	553,690
Capital Outlay	3,299,052	52,620	8,223	3,359,895
Debt Service:				
Principal	317,097			317,097
Interest and other charges	10,253			10,253
<b>Total Expenditures</b>	<u>25,192,233</u>	<u>691,983</u>	<u>168,740</u>	<u>26,052,956</u>
Net Changes in Fund Balances	(4,552,673)	550,929	55,148	(3,946,596)
<b>Fund Balances - Beginning of Year</b>	<u>11,261,261</u>	<u>6,613,926</u>	<u>420,250</u>	<u>18,295,437</u>
<b>Fund Balances - End of Year</b>	<u>\$ 6,708,588</u>	<u>\$ 7,164,855</u>	<u>\$ 475,398</u>	<u>\$ 14,348,841</u>

See Notes to Basic Financial Statements.

**CITY OF STAFFORD, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended September 30, 2017*

Net change in fund balances - total governmental funds: \$ (3,946,596)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The capital asset expenditures are allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlay of \$3,471,146 was exceeded by depreciation of \$3,473,870 in the current period. (2,724)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Governmental activities reports only the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the book value of the asset sold. (3,430)

Governmental funds do not present revenues (uncollected fines and forfeitures) that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 64,951

Governmental funds report activity related to sales tax obligations and capital leases as an expenditure. In contrast, the Statement of Activities records the obligations and leases as long-term liabilities and the payments as a reduction in the liability. This is the amount of the change in the long-term liability. 317,097

Pension contributions made during the year, are treated as expenditures in the governmental funds but are treated as a reduction in pension liability in government wide financial statements. 1,437,569

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest not reflected in Governmental funds 5,055  
 Compensated absences (190,109)  
 Pension expense for the pension plan measurement year (1,812,253)

Operations of Internal Service Funds not reported in Governmental Fund activities (549,489)

Change in net position of governmental activities \$ (4,679,929)

*See Notes to Basic Financial Statements.*

**CITY OF STAFFORD, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
*September 30, 2017*

	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 593,414
Accounts receivable, net	234
<b>Total Assets</b>	<u>593,648</u>
<b>Liabilities</b>	
Claims payable	276,202
Due to other funds	1,057,234
<b>Total Liabilities</b>	<u>1,333,436</u>
<b>Net Position</b>	
Unrestricted	<u>(739,788)</u>
<b>Total Net Position (Deficit)</b>	<u>\$ (739,788)</u>

*See Notes to Basic Financial Statements.*

**CITY OF STAFFORD, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
*For the Year Ended September 30, 2017*

	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>Operating Revenues</b>	
Health Insurance Premiums	\$ 2,247,766
<b>Total Operating Revenues</b>	<u>2,247,766</u>
<b>Operating Expenses</b>	
Health Claims	2,144,407
Administrative Fees	658,026
<b>Total Operating Expenses</b>	<u>2,802,433</u>
<b>Operating income (loss)</b>	<u>(554,667)</u>
<b>Non-Operating Revenues</b>	
Earnings on Investments	5,178
<b>Total Non-Operating Revenues</b>	<u>5,178</u>
Change in Net Position	(549,489)
<b>Total Net Position (Deficit) - Beginning of Year</b>	<u>(190,299)</u>
<b>Total Net Position (Deficit) - End of Year</b>	<u>\$ (739,788)</u>

*See Notes to Basic Financial Statements.*

**CITY OF STAFFORD, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
*For the Year Ended September 30, 2017*

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
<b>Cash Flows From Operating Activities</b>	
Cash received from premiums	\$ 2,912,057
Cash paid for claims	(1,973,481)
Cash paid for administrative fees	(658,026)
<b>Net cash provided by operating activities</b>	<u>280,550</u>
<b>Cash Flows From Investing Activities</b>	
Interest received	5,178
<b>Net cash provided by investing activities</b>	<u>5,178</u>
Net increase (decrease) in cash and cash equivalents	285,728
<b>Cash and cash equivalents - beginning of year</b>	<u>307,686</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 593,414</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income (loss)	\$ (554,667)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
(Increase) decrease in other receivables	4,241
Increase (decrease) in interfund payables	<u>660,050</u>
<b>Net cash provided by operating activities</b>	<u>\$ 280,550</u>

*See Notes to Basic Financial Statements.*

**CITY OF STAFFORD, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Organization**

The City of Stafford, Texas (the “City”) is an independent political subdivision of the State of Texas governed by an elected six (6) member council and a mayor. The City provides services to the citizens of the City as authorized in its charter. Presently these services include police and fire protection, building and code inspection, planning, zoning, engineering, drainage, street repair and maintenance, park maintenance, recreation facilities, municipal court and general administrative services.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

**A. Reporting Entity**

In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity as discretely presented component units.

**Stafford Economic Development Corporation (“SEDC”)**

In 1999, the City of Stafford formed the Stafford Economic Development Corporation (a 4B corporation), which was created by voters approving an additional sales tax to be used for economic development. State law (4B) allows the City to collect sales tax to assist in the promotion and development activities of the City. The Stafford Economic Development Corporation has been included as a discretely presented component unit in the City’s financial statements in accordance with generally accepted accounting principles for governments. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net position of the Corporation shall be conveyed to the City.

The Financial Statements for the Stafford Economic Development Corporation can be obtained from the Director of Finance, City of Stafford, Texas.

**Stafford Municipal School District**

The Stafford Municipal School District (SMSD) was created by the City of Stafford in 1977, SMSD has been included as a discretely presented component unit in the City’s financial statements in accordance with generally accepted accounting principles for governments. SMSD has a separately elected Board of Trustees and is a separate legal entity. However, the City approves the District’s tax rate and budget, and must approve any debt issuance made by SMSD. In 2003, the City received legislative authority from the state for the council to have voting authority with the SMSD Board over the adoption of SMSD’s annual budget. Therefore, the City Council approval is required for annual budgets and for bonded debt issuance making the District a component unit of the City.

SMSD has a fiscal year end (August 31st) that differs from the City’s fiscal year end (September 30th). However, the year ends are treated consistently each year. The Financial Statements of SMSD can be obtained from the Chief Financial Officer of Stafford Municipal School District, 1625 Staffordshire, Stafford, Texas 77477.

**CITY OF STAFFORD, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 2 - Summary of Significant Accounting Policies (continued)**

The City has an agreement with SMSD concerning its share of construction, maintenance and operating costs of a maintenance facility, and the costs of routine maintenance operations as more fully described in Note 11 of the financial statements.

The component units identified are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City appoints a majority of these organizations' boards and is either able to impose its will on them or a financial benefit/burden exists.

The financial reporting entity consists of the primary government and other organizations for which the primary government is financially accountable.

The definition of a reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds. The City does not have any fiduciary funds. Major individual governmental funds and the internal service fund are reported as separate columns in the fund financial statements. Non-major governmental funds are combined and reported in a separate column in the fund financial statements. The City has only one proprietary fund.

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus, as are the proprietary fund financial statements. The government-wide statements and proprietary fund statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes and franchise fees are recognized as revenues in the year that gives rise to the transaction. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF STAFFORD, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as needed.

Sales taxes, franchise fees, licenses, municipal court revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. The *General Fund* is made up of the City's General sub-fund and its Municipal Sales Tax sub-fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The *Hotel/Motel Occupancy Tax Fund* accounts for taxes collected from local hotels and motels and can only be used for special purposes as allowed by the State to promote tourism and benefit the City in attracting visitors to the City.

The City has one proprietary fund that is not considered a major fund:

The *Internal Service Fund* accounts for the City's self-funded medical insurance plan provided for the benefit of eligible employees. The revenues of this fund are received from both the general and special revenue funds and City employees, and the expenses are comprised of claims paid on behalf of the City and its employees. The general fund is contingently liable for liabilities of these funds. Sub-fund accounting is employed to maintain the integrity of the various self-insurance activities of the City. See Note 10 for additional discussion of the City's self-insurance plan.

The medical insurance plan is intended to be self-supporting and contributions for premiums are increased periodically to cover the cost of claims, insurance premiums and administrative fees. As of September 30, 2017, liabilities totaled \$1.3 million and net position (deficit) of the health insurance plan was (\$739,788).

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

**CITY OF STAFFORD, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 2 - Summary of Significant Accounting Policies (continued)**

**D. Cash and Cash Equivalents**

The City considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

**E. Investments**

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

**F. Due to and from Other Funds**

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivables and payables are, for the most part, eliminated from the Government-Wide Statement of Net Position and are recorded as “due from other funds” or “due to other funds” in the fund financial statements.

**G. Inventory**

Inventory is valued at cost and consists primarily of fuel and supplies. The consumption method of inventory is employed by the City, whereby the purchases of these supplies are charged directly to inventory for control and then expended as consumed.

**H. Capital Assets**

Capital assets, which include land, buildings, improvements other than buildings, machinery and equipment, infrastructure, and construction in progress, are reported in the applicable governmental type activities columns in the government-wide financial statements. Capital assets, other than infrastructure items, are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of governmental-type activities is not included as part of the capitalized value of the assets constructed.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Asset</u>	
Buildings	50 Years
Improvements other than buildings	20 Years
Machinery and equipment	4-20 Years
Infrastructure	20-65 Years

**Note 2 - Summary of Significant Accounting Policies (continued)**

**I. Compensated Absences**

The City's sick leave policy provides ten sick leave days per year. Employees may accumulate up to 180 sick leave days. Upon termination of employment, whether voluntary or involuntary, including retirement, employees receive payment for a maximum of 30 days accumulated sick leave at their base salary in effect at date of termination.

Nonexempt employees are allowed to take compensation time off for hours worked in excess of 40 hours during a week. The City has established limits of 40 hours of compensation time that can be accumulated which must be taken (or paid to the employee as compensation) before the end of the fiscal year.

Employees are allowed to earn up to 20 vacation leave days per year based on their length of employment with the City. No payment in lieu of taking vacation leave days is available for continuing employees. However, in the case of termination due to voluntary termination, discharge, retirement, or death of an employee, the employee or their estate shall be paid for the accrued but unused vacation leave as of the effective date of termination. The maximum amount of vacation leave paid upon termination, regardless of the amount accrued but unused, shall not exceed the total of vacation hours the employee is eligible to earn during the year in which termination occurs.

The compensated absences are funded from the General Fund when due and payable.

**J. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government has two items that qualify for reporting in this category:

- Deferred charge on refunding - Reported for the SEDC and the SMSD in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred outflows of resources for pension – Reported for the City and the SMSD in the government-wide financial statement of net position. This deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from City and the SMSD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

**Note 2 - Summary of Significant Accounting Policies (continued)**

**J. Deferred Outflows/Inflows of Resources (continued)**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from fines, fees and taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported for the City and SMSD in the government-wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

**K. Pensions**

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

**L. Use of Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ from these estimates.

**M. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

**CITY OF STAFFORD, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 2 - Summary of Significant Accounting Policies (continued)**

**N. Fund Equity**

As of September 30, 2017, fund balances of the governmental funds are classified as follows:

*Nonspendable* - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted* - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Unassigned* - all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. The City of Stafford has not adopted a minimum fund balance policy for the General Fund.

**O. Net Position**

Net position represents the differences between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position invested in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**Note 3 - Deposits and Investments**

The City classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of one year or more. At September 30, 2017, the City had no investments reported.

**Deposits**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to them. The City requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of all balances.

Under Texas state law, a bank serving as the depository must have a bond or in lieu thereof, deposited or pledged securities (or letters of credit) with the City or an independent third-party agent, an amount equal to the highest daily balance of all deposits the City may have during the term of the depository contract, less any applicable FDIC insurance.

**CITY OF STAFFORD, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 3 - Deposits and Investments (continued)**

At September 30, 2017, in addition to petty cash, the carrying amount of the City's cash, savings, and time deposits of \$14.4 million was entirely covered by federal depository insurance and collateral pledged in the City's name. The collateral was held in the safekeeping department of another bank, which acts as the pledging bank's agent.

**Investment Policy**

The City held no investments at September 30, 2017. The City is not exposed to custodial credit risk.

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the Council. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

The City's Investment Officer submits an investment report each quarter to the Council. The report details the investment positions of the City and the compliance of the investment portfolios as they relate to both the adopted investment strategy statements and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. Banker's acceptances as permitted by Government Code 2256.012;
5. Commercial paper as permitted by Government Code 2256.013;
6. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
8. Public funds investment pools as permitted by Government Code 2256.016.

**CITY OF STAFFORD, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 3 - Deposits and Investments (continued)**

*Interest Rate Risk* - As a means of minimizing risk of loss due to interest rate fluctuations and in order to meet anticipated cash flow requirements, the Investment Policy requires that unless matched to a specific cash flow, the City will not directly invest in securities maturing more than two years from the date of purchase.

**Note 4 - Receivables and Allowance for Uncollectible Accounts**

Receivables are evaluated and an allowance for uncollectible accounts is set up when the collections are doubtful. Receivables as of September 30, 2017, are as follows:

	<u>General Fund</u>	<u>Hotel Occupancy Tax Fund</u>	<u>Non-major Governmental Funds</u>	<u>Internal Service Fund</u>	<u>Total</u>
<b>Receivables:</b>					
Taxes					
Sales and use taxes	\$ 1,947,633	\$ 165,105	\$	\$	\$ 2,112,738
Fines and Forfeitures	4,306,720				4,306,720
Special assessments			26,614		26,614
Franchise taxes	222,408				222,408
Grants	89,664				89,664
Other	9,556			234	9,790
<b>Gross Receivables</b>	<u>6,575,981</u>	<u>165,105</u>	<u>26,614</u>	<u>234</u>	<u>6,767,934</u>
Less: allowance for uncollectibles	<u>(3,867,272)</u>				<u>(3,867,272)</u>
<b>Net Total Receivables</b>	<u>\$ 2,708,709</u>	<u>\$ 165,105</u>	<u>\$ 26,614</u>	<u>\$ 234</u>	<u>\$ 2,900,662</u>

The City completed special work in a subdivision within the City which was financed by general obligation bonds. The City financed the project out of the capital projects fund and has assessed the owners of the property \$481,000 to be reimbursed to the City over seven years. The impact fees are recorded in the capital project fund as revenue when the payments are received from homeowners.

**Note 5 - Interfund Receivables, Payables and Transfers**

Interfund balances at September 30, 2017, consisted of the following individual fund receivables and payables:

<u>Payable Fund</u>	<u>Receivable Fund</u>		<u>Totals</u>
	<u>General Fund</u>	<u>Non-major Governmental Funds</u>	
General Fund	\$	168,091	168,091
Hotel Occupancy Fund	217,125		217,125
Non-Major Governmental Funds	34,452		34,452
Internal Service Fund	1,057,234		1,057,234
Total	<u>\$ 1,308,811</u>	<u>\$ 168,091</u>	<u>\$ 1,476,902</u>

Amounts reported as interfund receivables/payables are considered temporary loans needed for normal operations and will be repaid during the following fiscal year.

There were no interfund transfers for the year ended September 30, 2017.

**CITY OF STAFFORD, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 6 - Capital Assets**

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

	<b>Balance 9/30/2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 9/30/2017</b>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 4,948,125	\$ 838,752	\$	\$ 5,786,877
Construction in progress	873,662	1,608,302	(427,633)	2,054,331
<b>Total capital assets, not being depreciated</b>	<b>5,821,787</b>	<b>2,447,054</b>	<b>(427,633)</b>	<b>7,841,208</b>
Capital assets being depreciated:				
Buildings	31,707,969			31,707,969
Improvements other than buildings	5,196,956	429,026		5,625,982
Machinery and equipment	14,393,596	1,022,699	(3,811)	15,412,484
Vehicles (capital lease)	1,728,906			1,728,906
Infrastructure	66,666,403			66,666,403
<b>Total capital assets being depreciated</b>	<b>119,693,830</b>	<b>1,451,725</b>	<b>(3,811)</b>	<b>121,141,744</b>
Less accumulated depreciation for:				
Buildings	(12,272,140)	(788,675)		(13,060,815)
Improvements other than buildings	(2,501,351)	(344,786)		(2,846,137)
Machinery and equipment	(10,170,620)	(1,059,033)	381	(11,229,272)
Vehicles (capital lease)	(1,087,275)			(1,087,275)
Infrastructure	(39,511,810)	(1,281,376)		(40,793,186)
<b>Total accumulated depreciation</b>	<b>(65,543,196)</b>	<b>(3,473,870)</b>	<b>381</b>	<b>(69,016,685)</b>
<b>Total capital assets being depreciated, net</b>	<b>54,150,634</b>	<b>(2,022,145)</b>	<b>(3,430)</b>	<b>52,125,059</b>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<b>\$ 59,972,421</b>	<b>\$ 424,909</b>	<b>\$ (431,063)</b>	<b>\$ 59,966,267</b>

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

<b>Governmental Activities</b>	
General administration	\$ 316,433
Municipal services and public works	1,534,934
Police and emergency services	814,561
Recreation and performing arts	775,688
Judicial	32,254
<hr/>	
Total depreciation expense - governmental activities	<b>\$ 3,473,870</b>

**CITY OF STAFFORD, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 6 - Capital Assets (continued)**

Construction in progress for various projects as of September 30, 2017, is as follows:

<b>Governmental Activities</b>	<b>Authorized Contract</b>	<b>Total in Progress</b>	<b>Remaining Commitment</b>
Fire Administration Building	\$ 1,800,000	\$ 202,770	\$ 1,597,230
Kirkwood/Greenbriar/US59	375,000	202,580	172,420
Missouri City Estates Drainage	300,000	251,305	48,695
Stafford Civic Center Projects	8,000	8,000	-
Stafford Center Projects	623,314	623,314	-
Staffordshire/Stafford Rd. Sidewalk Project	650,000	348,297	301,703
Sugar Creek Drainage	100,000	55,227	44,773
Vacarro Drainage Improvements	176,263	176,263	-
W. Airport @ FM 1092	390,000	186,575	203,425
	<u>\$ 4,422,577</u>	<u>\$ 2,054,331</u>	<u>\$ 2,368,246</u>

**Note 7 - Long-Term Debt**

The City issues general obligation bonds, certificates of obligation, permanent improvement bonds and permanent improvement refunding bonds. Payments of principal and interest on the debt are provided primarily from sales taxes. The sales tax for debt payments (0.5 percent) was specifically approved by voters for servicing debt to lower the property taxes required for debt service. According to state law, when a City has sales taxes approved to be used for debt payment and the City does not levy property taxes for debt service, the City is allowed to use sales tax deposits that exceed the amount of revenue needed to pay the current year debt service requirements of the City for municipal purposes consistent with the municipal budget. For the year ended September 30, 2017, the City had excess sales taxes collected of \$4,209,816 over sales tax obligation debt requirements. These amounts have been recorded in the General Fund to be used as approved by City Council.

**CITY OF STAFFORD, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 7 - Long-Term Debt (continued)**

**Summary of Long-Term Debt Transactions**

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases payable	\$ 353,737	\$	\$ (174,341)	\$ 179,396	\$ 179,396
Sales Tax obligations	2,284,288		(142,757)	2,141,531	142,751
Compensated absences - sick leave	<u>961,846</u>	<u>800,870</u>	<u>(610,761)</u>	<u>1,151,955</u>	<u>35,973</u>
<b>Governmental Activities</b>					
<b>Long-term Liabilities</b>	<u>\$ 3,599,871</u>	<u>\$ 800,870</u>	<u>\$ (927,859)</u>	<u>\$ 3,472,882</u>	<u>\$ 358,120</u>

**Excess Sales Tax Liability**

The City negotiated a long-term payout of excess sales tax received in prior years in the amount of approximately \$3.6 million, with the State Comptroller. This amount was collected by the City and the Stafford Economic Development Corporation (SEDC) during the fiscal year periods 2000 through 2007. The total negotiated payout calls for a twenty-five year period with equal prorata amounts deducted each month from City's and the SEDC's sales tax receipts beginning with October 2007. No interest is associated with this long-term liability.

During the 2015 fiscal year, the City negotiated a long-term payout of excess sales tax received in prior years in the amount of \$422,023, with the State Comptroller. The total negotiated payout calls for an eighteen year period with equal amounts deducted each month from the City's sales tax receipts beginning with May 2015. No interest is associated with this long-term liability.

The annual requirements on the City's portion of the Excess Sales Tax liability, as of September 30, 2017, are \$142,751 for fiscal years 2018 through 2031 and \$143,023 in fiscal year 2032, for a total of \$2.1 million.

**Capital Leases**

During the year ended September 30, 2012, the City entered into a lease purchase agreement for firefighting equipment (two Custom Pumper Trucks and one Brush Truck) costing \$1,186,906. The lease is for a period of seven years with annual payments of \$184,599 and a stated interest rate of 2.9%. Interest paid on this lease was \$10,253 for the year ended September 30, 2017.

**CITY OF STAFFORD, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 7 - Long-Term Debt (continued)**

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments, as of September 30, 2017:

<b>Year Ending</b>	<b>Amount</b>
<u>9/30</u>	<u></u>
2018	\$ 184,599
Total minimum lease payments	184,599
Less amounts representing interest	<u>(5,203)</u>
Net present value of minimum lease payments	<u>\$ 179,396</u>

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Assets:	
Vehicles	\$ 1,728,906
Less: Accumulated Depreciation	<u>(1,253,629)</u>
Net	<u>\$ 475,277</u>

**Note 8 - Employee Retirement System**

***Texas Municipal Retirement System***

**Plan Description**

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

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

**CITY OF STAFFORD, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 8 - Employee Retirement System (continued)**

**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 actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions.

Beginning in 2005, the City granted an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 2005, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	100% Repeating
Annuity Increase to retirees	70% of CPI Repeating

The City does not participate in Social Security.

Employees covered by benefit terms –

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

Retirees or beneficiaries currently receiving benefits	76
Inactive employees entitled to but not yet receiving benefits	56
Active employees	<u>165</u>
	<u>297</u>

**CITY OF STAFFORD, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 8 - Employee Retirement System (continued)**

**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 consulting 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 7% of their annual gross earnings during the fiscal year. For fiscal year 2017, the City made contributions of 14.51% for the months in 2016 and 15.04% for the months in 2017.

**Net Pension Liability**

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

**Actuarial Assumptions**

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. This experience study was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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.

**CITY OF STAFFORD, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 8 - Employee Retirement System (continued)**

**Actuarial Assumptions (continued)**

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. 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	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	<u>100.0%</u>	

**Discount Rate**

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7% 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 plan members. 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.

**Sensitivity of the net pension liability to changes in the discount rate –**

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

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$10,967,987	\$ 5,393,448	\$ 847,724

**CITY OF STAFFORD, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 8 - Employee Retirement System (continued)**

**Changes in the Net Pension Liability**

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 36,219,733	\$ 30,516,412	\$ 5,703,321
Changes for the year:			
Service Cost	1,523,293		1,523,293
Interest	2,436,031		2,436,031
Difference between expected and actual experience	(417,968)		(417,968)
Contributions - employer		1,223,185	(1,223,185)
Contributions - employee		590,097	(590,097)
Net Investment income		2,062,493	(2,062,493)
Benefit payments, including refunds, of employee contributions	(1,784,051)	(1,784,051)	
Administrative expense		(23,292)	23,292
Other changes		(1,254)	1,254
Net changes	<u>1,757,305</u>	<u>2,067,178</u>	<u>(309,873)</u>
Balance at 12/31/2016	<u>\$ 37,977,038</u>	<u>\$ 32,583,590</u>	<u>\$ 5,393,448</u>

**Pension Plan Fiduciary Net Position**

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

**CITY OF STAFFORD, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 8 - Employee Retirement System (continued)**

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

For the year ended September 30, 2017, the City recognized pension expense of \$1,812,253.

At September 30, 2017, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected actuarial experience	\$ 169,128	\$ 352,470
Differences in assumption changes	55,171	
Differences between projects and actual investment earnings	1,399,239	
Contributions subsequent to the measurement date	<u>1,092,806</u>	
Total	<u><u>2,716,344</u></u>	<u><u>\$ 352,470</u></u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2017 (i.e. recognized in the city's financial statements September 30, 2018). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2018	\$ 478,337
2019	478,339
2020	405,642
2021	(29,912)
2022	<u>(61,338)</u>
Total	<u><u>\$ 1,271,068</u></u>

**CITY OF STAFFORD, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 8 - Employee Retirement System (continued)**

*Deferred Compensation Plan*

The City also offers its employees a deferred compensation plan (457 Plan) created in accordance with Internal Revenue Code Section 457. The 457 Plan is administered by Nationwide Retirement Solutions, Inc. and is available to all full time employees over the age of eighteen (18) immediately upon becoming employed by the City. The 457 Plan functions for the benefit of the employees and their beneficiaries. Participants may contribute up to the amount allowable under the provisions of the Internal Revenue Code. The City does not match participant contributions. The 457 Plan is not reported in the City's basic financial statements.

Participant contributions for the year ended September 30, 2017, were \$103,567. The trustee of the plan distributes any benefits provided by the plan from net position available for plan benefits. Contributions made by participants vest immediately in their accounts. Contributions made by the City vest in the participants' accounts at the time such contribution is made. When a participant retires, terminates employment or becomes disabled, he/she is entitled to receive all amounts in which he/she has a vested interest in either a lump-sum payment, periodic payment by fixed amount, periodic payment by fixed time period, partial lump sum payment, or purchased annuity contract.

**Note 9 – Supplemental Death Benefits**

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

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

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$18,560, \$16,094 and \$14,063, respectively, which equaled the required contributions each year.

**CITY OF STAFFORD, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**Note 10 - Self-Insured Health Care**

During the year ended September 30, 2017, employees of the City were covered by a self-funded health insurance plan (the “plan”). Health claim payments are payments by the City on behalf of the employees to pay premiums for dependents’ health insurance processed by a third-party administrator acting on behalf of the City. See Note 1 for additional discussion of the plan.

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through the Zurich America Insurance Company, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$60,000 and for aggregate loss exceeding \$1,250,000.

These liabilities are based on requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of loss can be reasonably estimated.

The latest financial statements available for Zurich are filed with the Texas State Board of Insurance, Austin, Texas, and are public records. The City does not provide post-retirement health benefits to its employees.

Changes in the medical claims liability amounts for the last three fiscal years are presented below:

Fiscal Year ended September 30,	Beginning of Fiscal-Year Liability	Annual Claims and Changes in Estimates	Claim Payments	End of Fiscal- Year Liability
2015	\$ 163,314	\$ 1,368,607	\$ 1,426,645	\$ 105,276
2016	105,276	1,530,281	1,530,281	105,276
2017	105,276	2,144,407	1,973,481	276,202

**Note 11 - Agreement with Stafford Municipal School District (“SMSD”) Regarding Maintenance Facility and Routine Maintenance Operations**

Under the terms of an agreement, the SMSD paid approximately \$200,000 in a prior year for the construction of a maintenance facility to jointly benefit the City and the SMSD. The facility is owned and operated by the City, and the SMSD’s costs for the facility’s construction, under the terms of the agreement, were recorded by the City as a donation and capitalized as a capital asset.

The agreement provides for the SMSD’s portion of operating costs of the facility, as well as the costs of routine maintenance operations provided to the SMSD by the City, to be paid by the SMSD. The City accumulates these costs and bills the SMSD periodically during the year. The routine maintenance activities provided by the City include all vehicle maintenance and operations and all grounds maintenance and operations. The 2016-17 annual billing to the SMSD for these City provided services was \$176,504, with \$15,449 recorded as a receivable as of September 30, 2017, in the General Fund. The City also provides SMSD the use of the Civic Center and Police Officers at no charge.

**CITY OF STAFFORD, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (continued)*

**Note 12 - Participation Agreements**

The City has cost participation agreements with various developers pertaining to the purchase and operating costs of street lighting facilities and the construction of street and drainage facilities. Unexpended amounts from participation contributions for use under the terms of these agreements at September 30, 2017, are as follows:

Street lighting participation	\$ 38,313
Street and drainage participation	<u>128,407</u>
Total	<u>\$ 166,720</u>

**Note 13 - Risk Management**

The City is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's risk management program encompasses various means of protecting the City against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers, self-insurance, and from participation in a risk pool. The City has not had any significant reductions in insurance coverage, and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. At year-end, the City did not have any significant claims.

**Note 14 - Litigation**

From time to time, the City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of City Management and legal counsel that any ultimate uninsured liability to the City from these lawsuits will not be material.

**Note 15 - Deficit Fund Balance**

As presented on the face of the proprietary fund financial statements, the City's internal service fund reported a deficit net position of \$739,299. The deficit position is expected to be remedied in the 2018 fiscal year through higher insurance premiums or lower costs.

**Note 16 - Subsequent Event**

On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast before stalling over Houston-Galveston region (the "Region") and producing significant flooding. Many residences and commercial properties in the Region sustained damage. City staff continues to work with FEMA representatives in finalizing the City's claim for reimbursement for emergency protective measures and debris removal costs totaling approximately \$600,000. Any amounts recovered through FEMA will be recognized in the City's 2018 fiscal year.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**CITY OF STAFFORD, TEXAS**

**GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**BUDGET AND ACTUAL (BUDGETARY BASIS)**

*For the Year Ended September 30, 2017*

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>Revenues</b>				
Taxes	\$ 13,255,000	\$ 13,255,000	\$ 14,597,320	\$ 1,342,320
Fines and fees	1,400,000	1,400,000	1,344,943	(55,057)
Licenses and permits	1,093,000	1,093,000	903,612	(189,388)
Intergovernmental	1,033,000	1,132,750	1,281,882	149,132
Charges for services	2,580,739	2,580,739	2,357,940	(222,799)
Interest	16,070	16,070	50,498	34,428
Miscellaneous	67,500	126,883	103,365	(23,518)
<b>Total Revenues</b>	<u>19,445,309</u>	<u>19,604,442</u>	<u>20,639,560</u>	<u>1,035,118</u>
<b>Expenditures</b>				
Current:				
General administration	3,287,161	3,545,257	3,036,021	509,236
Financial administration	447,001	527,495	469,696	57,799
Municipal Services and public works	5,325,537	5,378,646	4,404,879	973,767
Police and emergency services	10,938,670	12,119,281	11,160,924	958,357
Recreation and performing arts	513,877	533,331	365,749	167,582
Stafford Centre	1,818,839	1,818,839	1,628,701	190,138
Judicial	540,764	542,734	499,861	42,873
Capital Outlay	3,755,439	5,053,455	3,299,052	1,754,403
Debt Service:				
Principal and interest	303,125	319,275	327,350	(8,075)
<b>Total Expenditures</b>	<u>26,930,413</u>	<u>29,838,313</u>	<u>25,192,233</u>	<u>4,646,080</u>
Changes in fund balance	(7,485,104)	(10,233,871)	(4,552,673)	5,681,198
<b>Fund Balance - Beginning of Year</b>	<u>11,261,261</u>	<u>11,261,261</u>	<u>11,261,261</u>	
<b>Fund Balance - End of Year</b>	<u>\$ 3,776,157</u>	<u>\$ 1,027,390</u>	<u>\$ 6,708,588</u>	<u>\$ 5,681,198</u>

**CITY OF STAFFORD, TEXAS**  
**HOTEL OCCUPANCY TAX - SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (GAAP BASIS)**  
**For the Year Ended September 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance Positive (Negative)</b>
<b>Revenues</b>				
Hotel occupancy taxes	\$ 1,200,000	\$ 1,200,000	\$ 1,190,716	\$ (9,284)
Interest	8,000	8,000	52,196	44,196
<b>Total Revenues</b>	<u>1,208,000</u>	<u>1,208,000</u>	<u>1,242,912</u>	<u>34,912</u>
<b>Expenditures</b>				
Current:				
Recreation and performing arts	716,011	721,311	639,363	81,948
Capital Outlay	195,000	195,000	52,620	142,380
<b>Total Expenditures</b>	<u>911,011</u>	<u>916,311</u>	<u>691,983</u>	<u>224,328</u>
Changes in fund balance	296,989	291,689	550,929	259,240
<b>Fund Balance - Beginning of Year</b>	<u>6,613,926</u>	<u>6,613,926</u>	<u>6,613,926</u>	<u>                    </u>
<b>Fund Balance - End of Year</b>	<u>\$ 6,910,915</u>	<u>\$ 6,905,615</u>	<u>\$ 7,164,855</u>	<u>\$ 259,240</u>

**CITY OF STAFFORD, TEXAS**

***NOTES TO BUDGETARY REQUIRED SUPPLEMENTARY INFORMATION***

*For the year ended September 30, 2017*

All departments of the City submit requests for appropriations to the Mayor so that a budget may be prepared. The budget is prepared by fund and includes requested appropriations for the next year. The proposed budget is presented to the City Council for review. The City Council holds budget workshops and may add to, subtract from, or change appropriations. A public hearing is held prior to adoption.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level. Line item and department budgets may exceed appropriated amounts at the discretion of the City Council as long as total expenditures for the fund do not exceed appropriated amounts. Revisions to the budget were made during the year. Appropriations not exercised in the current year lapse at the end of the year.

Annually, the City adopts budgets for all governmental fund types (General Fund, Special Revenue Funds, and Capital Projects Fund). Capital Project Fund budgets are adopted on a project basis and are updated and modified annually. Special Revenue Fund budgets are prepared in aggregate and not on a fund by fund or project by project basis.

The General Fund, and Hotel Motel Occupancy Tax Fund budgets are annual appropriations style budgets prepared and typically presented on a GAAP (generally accepted accounting principles) basis.

**CITY OF STAFFORD, TEXAS**  
**REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION**  
*For the year ended September 30, 2017*

**TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Three Measurement Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 1,523,293	\$ 1,318,015	\$ 1,047,608
Interest	2,436,031	2,358,232	2,225,384
Changes of benefit terms		-	
Difference between expected and actual experience	(417,968)	260,796	(12,479)
Change in assumptions		85,075	
Benefit payments, including refunds of employee contributions	<u>(1,784,051)</u>	<u>(1,664,816)</u>	<u>(1,330,942)</u>
Net change in total pension liability	1,757,305	2,357,302	1,929,571
Total pension liability - beginning	<u>36,219,733</u>	<u>33,862,431</u>	<u>31,932,860</u>
Total pension liability - ending (a)	<u>\$ 37,977,038</u>	<u>\$ 36,219,733</u>	<u>\$33,862,431</u>
Plan fiduciary net position:			
Contributions - employer	\$ 1,223,185	\$ 1,129,513	\$ 1,007,242
Contributions - employee	590,097	527,809	478,662
Net investment income	2,062,493	45,017	1,643,366
Benefit payments, including refunds of employee contributions	(1,784,051)	(1,664,816)	(1,330,942)
Administrative expense	(23,292)	(27,419)	(17,158)
Other	<u>(1,255)</u>	<u>(1,354)</u>	<u>(1,411)</u>
Net change in plan fiduciary net position	2,067,177	8,750	1,779,759
Plan fiduciary net position - beginning	<u>30,516,413</u>	<u>30,507,663</u>	<u>28,727,904</u>
Plan fiduciary net position - ending (b)	<u>32,583,590</u>	<u>30,516,413</u>	<u>30,507,663</u>
Net pension liability - ending (a) - (b)	<u>\$ 5,393,448</u>	<u>\$ 5,703,320</u>	<u>\$ 3,354,768</u>
Plan fiduciary net position as a percentage of total pension liability	85.80%	84.25%	90.09%
Covered employee payroll (measurement year)	\$ 8,429,955	\$ 7,540,134	\$ 6,802,638
Net pension liability as a percentage of covered employee payroll	63.98%	75.64%	49.32%

**CITY OF STAFFORD, TEXAS**  
**REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION**  
*For the year ended September 30, 2017*

**TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)**  
**Schedule of Contributions**  
**Last Six Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarially determined contribution	\$ 1,436,970	\$ 1,193,121	\$ 1,057,340	\$ 1,042,715	\$ 937,294	\$ 921,584
Contribution in relation of the actuarially determined contribution	<u>1,436,970</u>	<u>1,193,121</u>	<u>1,057,340</u>	<u>985,363</u>	<u>862,664</u>	<u>811,344</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,352</u>	<u>\$ 74,630</u>	<u>\$ 110,240</u>
Covered employee payroll (fiscal year)	\$ 9,642,541	\$ 8,046,812	\$ 7,110,532	\$ 6,725,305	\$ 6,033,033	\$ 5,818,677
Contributions as a percentage of covered employee payroll	14.90%	14.83%	14.87%	14.65%	14.30%	13.94%

**Notes to Schedule:**

**Valuation Date:**

Actuarial determined contribution rates are calculated as of December 31<sup>st</sup> each year and become effective in January, 12 months and a day 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	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last 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:**

There were no benefit changes during the year.

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## **OTHER SUPPLEMENTAL INFORMATION**

**CITY OF STAFFORD, TEXAS**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**September 30, 2017**

	<b>Capital Projects Fund</b>	<b>Courts Efficiency</b>	<b>Narcotic Seizure</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 5,511	\$	\$ 158,224
Taxes receivable, net	26,614		
Due from other funds		5,745	
<b>Total Assets</b>	<u>\$ 32,125</u>	<u>\$ 5,745</u>	<u>\$ 158,224</u>
<b>Liabilities</b>			
Accounts payable	\$	\$	\$
Due to other funds		426	34,026
Unearned revenue			
<b>Total Liabilities</b>		<u>426</u>	<u>34,026</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenues	26,614		
<b>Total Deferred Inflows of Resources</b>	<u>26,614</u>		
<b>Fund balances</b>			
Restricted for			
Capital Projects	5,511		
Municipal court programs		5,319	
Public safety programs			124,198
Municipal services			
<b>Total Fund Balances</b>	<u>5,511</u>	<u>5,319</u>	<u>124,198</u>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<u>\$ 32,125</u>	<u>\$ 5,745</u>	<u>\$ 158,224</u>

<b>Court Security</b>	<b>Court Technology</b>	<b>Child Safety Fees</b>	<b>Police Department Funds</b>	<b>Participation Agreements and Other</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$	\$	\$ 17,197	\$ 167,120	\$ 348,052
26,153	77,453	47,904	10,836		26,614
<u>\$ 26,153</u>	<u>\$ 77,453</u>	<u>\$ 47,904</u>	<u>\$ 28,033</u>	<u>\$ 167,120</u>	<u>\$ 168,091</u>
\$	\$	\$	\$	\$ 400	\$ 400
			5,893		34,452
			<u>5,893</u>		<u>5,893</u>
				<u>400</u>	<u>40,745</u>
					<u>26,614</u>
					<u>26,614</u>
26,153	77,453	47,904	22,140	166,720	5,511
					108,925
					194,242
<u>26,153</u>	<u>77,453</u>	<u>47,904</u>	<u>22,140</u>	<u>166,720</u>	<u>166,720</u>
					<u>475,398</u>
<u>\$ 26,153</u>	<u>\$ 77,453</u>	<u>\$ 47,904</u>	<u>\$ 28,033</u>	<u>\$ 167,120</u>	<u>\$ 542,757</u>

**CITY OF STAFFORD, TEXAS**  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2017**

	<b>Capital Projects Fund</b>	<b>Courts Efficiency</b>	<b>Narcotic Seizure</b>
<b>Revenues</b>			
Fines and forfeitures	\$	\$ 2,470	\$
Charges for services			
Investment earnings	42		1,144
Miscellaneous			97,644
<b>Total Revenues</b>	<u>42</u>	<u>2,470</u>	<u>98,788</u>
<b>Expenditures</b>			
Current:			
Municipal services and public works			84,699
Police and emergency services		2,320	
Judicial			
Capital Outlay			8,223
<b>Total Expenditures</b>		<u>2,320</u>	<u>92,922</u>
Changes in Fund Balance	42	150	5,866
<b>Fund Balances - Beginning of Year</b>	<u>5,469</u>	<u>5,169</u>	<u>118,332</u>
<b>Fund Balances - End of Year</b>	<u>\$ 5,511</u>	<u>\$ 5,319</u>	<u>\$ 124,198</u>

<b>Court Security</b>	<b>Court Technology</b>	<b>Child Safety Fees</b>	<b>Police Department Funds</b>	<b>Participation Agreements and Other</b>	<b>Total Non-Major Governmental Funds</b>
\$ 26,661	\$ 35,558	\$	\$	\$	\$ 64,689
			10,000		10,000
			153	1,247	2,586
		24,018		24,951	146,613
<u>26,661</u>	<u>35,558</u>	<u>24,018</u>	<u>10,153</u>	<u>26,198</u>	<u>223,888</u>
					84,699
19,669					21,989
	53,829				53,829
					8,223
<u>19,669</u>	<u>53,829</u>				<u>168,740</u>
6,992	(18,271)	24,018	10,153	26,198	55,148
<u>19,161</u>	<u>95,724</u>	<u>23,886</u>	<u>11,987</u>	<u>140,522</u>	<u>420,250</u>
<u>\$ 26,153</u>	<u>\$ 77,453</u>	<u>\$ 47,904</u>	<u>\$ 22,140</u>	<u>\$ 166,720</u>	<u>\$ 475,398</u>