

CITY OF STAFFORD, TEXAS
ANNUAL FINANCIAL REPORT
Year Ended September 30, 2018
with Report of Independent Auditors

CITY OF STAFFORD, TEXAS
TABLE OF CONTENTS

	<u>Page</u>
Principal City Officials	i
Financial Section	
Report of Independent Auditors	1
Management’s Discussion and Analysis	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet to the Governmental Activities Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Governmental Activities Statement of Activities	21
Statement of Net Position - Proprietary Fund - Internal Service Fund	22
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund - Internal Service Fund	23
Statement of Cash Flows - Proprietary Fund - Internal Service Fund	24
Notes to the Financial Statements	25
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	50
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Hotel Occupancy Tax - Special Revenue Fund	51
Notes To Budgetary Required Supplementary Information	52
Required Pension System Supplementary Information	
Schedule of Changes in Net Pension Liability and Related Ratios	53
Schedule of Contributions	54
Required Other Post-Employment Benefits Supplementary Information	
Schedule of Changes in Total OPEB Liability and Related Ratios	55
Other Supplemental Information:	
Combining Balance Sheet - Non-major Governmental Funds	58
Combining Statement of Revenues, Expenses and Changes in Fund Balances - Non-major Governmental Funds	60

CITY OF STAFFORD, TEXAS
PRINCIPAL OFFICIALS

Elected Officials

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

Appointed Officials

Tomika Lewis	City Secretary
Richard Ramirez	Chief of Police
Dorrance Roderick	Finance Director
Chris Riggs	Director of Public Works
Carolyn Entricht	Director of Television Production
Nicole Nguyen	Director of Municipal Court
Lawrence DiCamillo	Fire Chief
Susan Ricks	Contract Administrator Stafford Centre and Director of Civic Center and Recreation
Ryan Young	Director of Information Technology
Patti Worfe	Executive Director of Stafford Economic Development Corporation
Shanell Garcia	Director of Human Resources

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

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Stafford Municipal School District, a discretely presented component unit of the City which reflects 89% of total assets and 88% 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, and the budgetary schedules, required pension system and other post-employment benefits 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
March 15, 2019

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, 2018.

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, 2018 and 2017

	Governmental Activities		Change	
	2018	2017	Amount	Percent
Current and other assets	\$ 27,748,092	\$ 17,450,391	\$ 10,297,701	59%
Capital assets	58,931,507	59,966,267	(1,034,760)	-2%
Total Assets	86,679,599	77,416,658	9,262,941	12%
Deferred outflows of resources	1,243,079	2,716,344	(1,473,265)	-54%
Current and other liabilities	6,147,348	3,380,478	2,766,870	82%
Long-term liabilities	15,946,437	9,216,796	6,729,641	73%
Total Liabilities	22,093,785	12,597,274	9,496,511	75%
Deferred inflows of resources	1,333,102	354,578	978,524	276%
Net position:				
Net investment in capital assets	49,652,985	59,792,382	(10,139,397)	-17%
Restricted	8,340,529	7,634,742	705,787	9%
Unrestricted	6,502,277	(245,974)	6,748,251	-2743%
Total Net Position	\$ 64,495,791	\$ 67,181,150	\$ (2,685,359)	-4%

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 \$64.5 million as of September 30, 2018.

By far the largest portion of the City's net position, 77 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 13 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 \$6.5 million may be used to meet the government's ongoing obligations to citizens and creditors. As of September 30, 2018, 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, 2018 and 2017:

CONDENSED STATEMENT OF ACTIVITIES

For the Years Ended September 30, 2018 and 2017

	Governmental Activities		Change	
	2018	2017	Amount	Percent
Revenues				
Program revenue:				
Charges for services	\$ 6,563,339	\$ 5,939,203	\$ 624,136	11%
Operating grants and contributions	226,491	225,896	595	0%
Capital grants and contributions		76,519	(76,519)	-100%
General revenues:				
Sales and use taxes	13,078,971	12,824,772	254,199	2%
Other taxes	2,973,143	2,963,269	9,874	0%
Unrestricted investment earnings	274,786	110,458	164,328	149%
Miscellaneous	594,835	32,947	561,888	1705%
Total Revenues	23,711,565	22,173,064	1,538,501	7%
Expenses:				
General Administration	3,208,929	3,586,050	(377,121)	-11%
Finance Administration	586,252	479,140	107,112	22%
Municipal Services & Public works	8,513,500	6,663,254	1,850,246	28%
Police and Emergency Services	12,275,104	12,742,924	(467,820)	-4%
Recreation and performing arts	1,540,388	864,490	675,898	78%
Stafford Centre	2,013,270	1,996,222	17,048	1%
Judicial	716,218	515,710	200,508	39%
Interest on long-term debt	216,085	5,203	210,882	4053%
Total Expenses	29,069,746	26,852,993	2,216,753	8%
Change in net position for the year	(5,358,182)	(4,679,929)	(678,253)	-14%
Net Position - Beginning - as restated	67,181,150	71,861,079	(4,679,929)	-7%
Net Position - Ending	\$ 61,822,968	\$ 67,181,150	\$ (5,358,182)	-8%

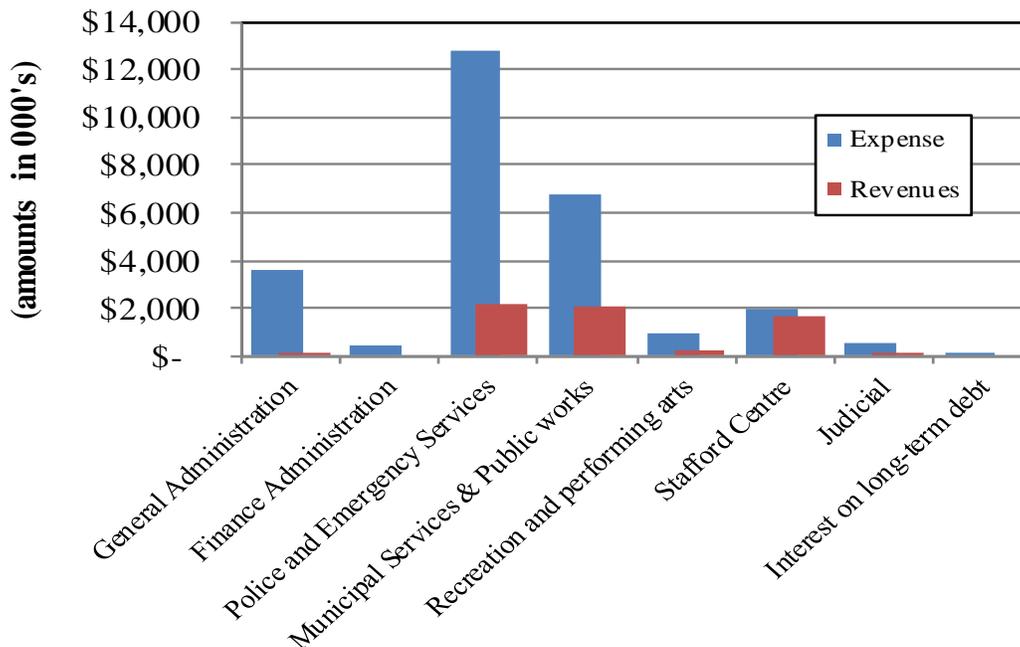
CITY OF STAFFORD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental activities

Governmental activities decreased the City's net position by \$2,685,359. The key changes in financial activity from the prior year are as follows:

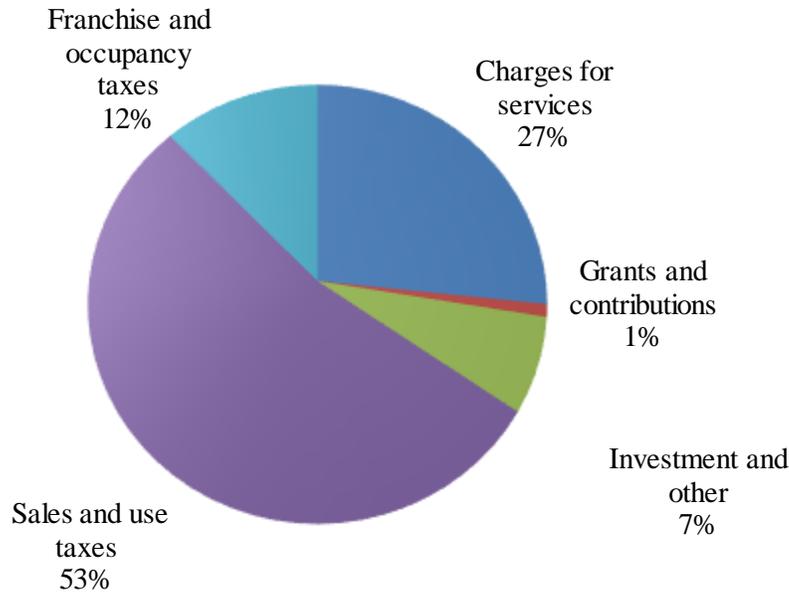
- The City realized a modest increase in Sales Tax Receipts but saw a \$396,150.00 (49.5%) increase in Permits and Inspection receipts primarily from increased construction activity related to the GRID project and the new Towing and Residential Rental permits.
- Stafford also sold approximately 16.65 acres of land to the Stafford Municipal School District for \$1,250,000.
- Other revenues had unexpected increases such as Miscellaneous revenue with a \$125,000.00 refund from an old TxDOT contract, as well as, interest earnings and a one-time sale of land to the school district.
- Expenses related to most departments increased, however, at a much lower rate than the year before. \$1,880,320 less than the prior year. This was due to a greater cost consciousness and monitoring of controls.
- There was a new department added, Human Resources which increased costs by \$129,200. The Emergency Management spun off from the Fire Marshall's office.
- Overall, City departmental increases were due to personnel changes and compensation adjustments and general operations. An example is the IT department which has a new Director and experienced increased computer licensing and related costs.
- There is also a renewed focus on rebuilding fund balances. The land sales and unexpected refunds will be applied to this plan.

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 \$21.1 million. A portion of the fund balance (\$15.9 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 \$5.1 million is available for any lawful purpose.

The General Fund balance decreased by 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, 2018, 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Capital Assets not being depreciated		
Land	\$ 4,997,622	\$ 5,786,878
Construction in progress	2,054,330	2,054,330
Capital Assets, net of depreciation		
Buildings	17,858,479	18,647,154
Improvements other than buildings	2,469,975	2,779,845
Machinery and equipment	4,287,435	4,824,842
Vehicles (capital lease)		
Infrastructure	<u>24,590,843</u>	<u>25,873,218</u>
Total capital assets - Governmental Activities	<u>\$ 56,258,684</u>	<u>\$ 59,966,267</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 \$3.3 million. This is a decrease from the prior year of approximately \$0.2 million, primarily due to pay down of debt. A schedule of long-term debt at September 30, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Certificates of obligation	\$ 8,930,000	\$
Premiums on issuance	348,522	
Capital leases payable		179,396
Sales Tax obligations	1,998,780	2,141,531
Compensated absences - sick leave	1,278,790	1,151,955
	<u>\$ 3,277,570</u>	<u>\$ 3,472,882</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 (2018-2019) Budgets and Rates

In the 2018-19 Budget, General Fund revenues are budgeted to increase by approximately 12% from the 2017-18 budget year primarily due to projected funding from the Fort Bend County bond program of \$2.0 million. Appropriations are budgeted to decrease by approximately 4% from the 2017-18 budget year.

	<u>2018 Budget</u>	<u>2019 Budget</u>	<u>Changes</u>
Revenues	\$ 21,544,823	\$ 24,118,167	\$ 2,573,344
Expenditures	26,206,574	27,375,442	1,168,868
Other sources (uses)	-	-	-
Changes in fund balance	(4,661,751)	(3,257,275)	1,404,476
Beginning Fund Balance	<u>6,708,588</u>	<u>5,223,329</u>	<u>(1,485,259)</u>
Ending Fund Balance	<u>\$ 2,046,837</u>	<u>\$ 1,966,054</u>	<u>\$ (80,783)</u>

In preparing the 2018-19 budget, management considered certain economic factors including:

- Increase in Fire Marshall fees, Fire Marshall code enforcement fees and Hazardous Materials fees
- New initiatives such as Towing Permits and Residential Rental inspection fees
- SMSD School Resource Officer (SRO) reimbursement
- Post Hurricane Harvey robust economic activity
- Reimbursements from FEMA
- One time percentage payment to all full-time employees on their anniversary date
- One time equity salary adjustments for long term employees
- Sales tax realization and new regulations
- Ongoing drainage projects and new Fire and Police facility construction projects
- Falling oil prices, retail trends, consumer confidence, Federal Reserve action, insurance costs
- New IT Director and HR department

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.

(This page intentionally left blank)

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank)

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

	Primary Government	Component Units	
	Governmental Activities	Stafford Economic Development Corporation	Stafford Municipal School District
Assets			
Cash and cash equivalents	\$ 24,362,824	\$ 11,414,415	\$ 69,141,681
Receivables (Net of Allowance for Uncollectibles)	3,305,247	727,529	1,845,400
Due from primary government		3,723,951	
Inventories	80,021		
Prepaid items			7,471
Capital assets, not subject to depreciation:	9,408,251		988,397
Capital assets, net of depreciation:	49,523,256		52,390,977
Total Capital Assets	<u>58,931,507</u>		<u>53,379,374</u>
Total Assets	<u>86,679,599</u>	<u>15,865,895</u>	<u>124,373,926</u>
Deferred Outflows of Resources			
Deferred charge on refunding		1,225,760	1,210,366
Deferred outflows relating to post employment activities	1,243,079		2,375,659
Total Deferred Outflows of Resources	<u>1,243,079</u>	<u>1,225,760</u>	<u>3,586,025</u>
Liabilities			
Accounts payable and accrued expenses	2,028,832	187,465	3,673,221
Due to component units	3,723,951		
Unearned revenues	394,565		50,147
Long-term liabilities:			
Due within one year	348,724	1,027,409	2,070,850
Due in more than one year	12,207,368	17,054,584	106,788,516
Net OPEB Liability	413,748		11,700,277
Net Pension Liability	2,976,597		5,688,055
Total Liabilities	<u>22,093,785</u>	<u>18,269,458</u>	<u>129,971,066</u>
Deferred Inflows of Resources			
Deferred inflows relating to post employment activities	1,333,102		6,177,301
Total Deferred Inflows of Resources	<u>1,333,102</u>		<u>6,177,301</u>
Net Position			
Net investment in capital assets	49,652,985		(2,610,693)
Restricted for:			
Grants			622,256
Debt service			1,076,213
Municipal courts	85,612		
Public safety	251,380		
Community projects	169,510		
Tourism	7,834,027		
Unrestricted	6,502,277	(1,177,803)	(7,276,192)
Total Net Position	<u>\$ 64,495,791</u>	<u>\$ (1,177,803)</u>	<u>\$ (8,188,416)</u>

See Notes To Basic Financial Statements.

CITY OF STAFFORD, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Primary government			
Governmental Activities:			
General Administration	\$ 3,194,893	\$	\$ 37,144
Finance Administration	586,252		
Municipal Services & Public works	7,122,121	2,307,560	24,250
Police and Emergency Services	11,926,689	2,202,659	165,097
Recreation and performing arts	1,335,750	250,251	
Stafford Centre	2,013,270	1,737,639	
Judicial	1,863	65,230	
Interest on long-term debt	216,085		
Total governmental activities	<u>26,396,923</u>	<u>6,563,339</u>	<u>226,491</u>
Component Units			
Stafford Economic Development Corporation	3,303,619		
Stafford Municipal School District	33,443,972	975,033	(901,729)
Total component units	<u>36,747,591</u>	<u>975,033</u>	<u>(901,729)</u>
Total	<u>\$ 63,144,514</u>	<u>\$ 7,538,372</u>	<u>\$ (675,238)</u>

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, as restated

Net Position - Ending

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government	Component Units	
Governmental Activities	Stafford Economic Development Corporation	Stafford Municipal School District
\$ (3,157,749)		
(586,252)		
(4,790,311)		
(9,558,933)		
(1,085,499)		
(275,631)		
63,367		
(216,085)		
<u>(19,607,093)</u>		
	\$ (3,303,619)	\$
		(33,370,668)
	<u>(3,303,619)</u>	<u>(33,370,668)</u>
<u>\$ (19,607,093)</u>	<u>\$ (3,303,619)</u>	<u>\$ (33,370,668)</u>
13,078,971	4,269,104	
1,771,747		
1,201,396		
274,786	219,163	29,715,964
594,835	46,763	795,241
<u>16,921,735</u>	<u>4,535,030</u>	<u>34,297,219</u>
(2,685,358)	1,231,411	3,687,716
67,181,150	(2,409,214)	98,298
<u>\$ 64,495,791</u>	<u>\$ (1,177,803)</u>	<u>\$ (8,188,416)</u>

CITY OF STAFFORD, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2018

	<u>General Fund</u>	<u>Hotel Occupancy Tax Fund</u>	<u>Capital Projects Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 5,972,043	\$ 8,332,865	\$ 8,913,664	\$ 467,762	\$ 23,686,334
Taxes receivable, net	2,182,588	96,751	26,614		2,305,953
Other receivables	901,586				901,586
Due from other governments	432,347				432,347
Due from other funds	2,547,593			179,763	2,727,356
Inventories	80,021				80,021
Total Assets	<u>\$ 12,116,178</u>	<u>\$ 8,429,616</u>	<u>\$ 8,940,278</u>	<u>\$ 647,525</u>	<u>\$ 30,133,597</u>
Liabilities					
Accounts payable	\$ 1,537,104	\$ 4,131	\$ 62,710	\$ 1,751	\$ 1,605,696
Accrued expenditures	242,026				242,026
Due to other funds	179,763	591,458	1,291,124	133,379	2,195,724
Due to component unit	4,058,589				4,058,589
Unearned revenue	388,673			5,893	394,566
Total Liabilities	<u>6,406,155</u>	<u>595,589</u>	<u>1,353,834</u>	<u>141,023</u>	<u>8,496,601</u>
Deferred Inflows of Resources					
Unavailable revenues - fines and fees	515,274		26,614		541,888
Fund balances					
Nonspendable	80,021				80,021
Restricted for:					
Capital Projects			7,559,830		7,559,830
Municipal court programs				85,612	85,612
Public safety programs				251,380	251,380
Municipal services				169,510	169,510
Tourism		7,834,027			7,834,027
Unassigned	5,114,728				5,114,728
Total Fund Balances	<u>5,194,749</u>	<u>7,834,027</u>	<u>7,559,830</u>	<u>506,502</u>	<u>21,095,108</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 12,116,178</u>	<u>\$ 8,429,616</u>	<u>\$ 8,940,278</u>	<u>\$ 647,525</u>	<u>\$ 30,133,597</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, 2018

Total fund balance, governmental funds \$ 21,095,108

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. 58,931,507

Uncollected fines and forfeitures and fees that 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. 541,888

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.

Bonds payable	(9,278,522)
Excess sales tax due to State	(1,998,780)
Accrued interest	(36,252)
Accrued compensated absences	(1,278,790)

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.

Deferred outflows of resources	1,211,647
Net pension liability	(2,976,597)
Deferred inflows of resources	(1,333,102)

Net OPEB 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.

Deferred outflows of resources	31,432
Total OPEB liability	<u>(413,748)</u>

Net Position of Governmental Activities in the Statement of Net Position \$ 64,495,791

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, 2018

	<u>General Fund</u>	<u>Hotel Occupancy Tax Fund</u>	<u>Capital Projects Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes:					
Sales and use tax	\$ 13,078,972	\$ 1,201,396	\$	\$	\$ 14,280,368
Franchise taxes	1,771,747				1,771,747
Fines and forfeitures	1,363,730			65,230	1,428,960
Licenses and permits	1,236,542				1,236,542
Intergovernmental	1,253,166				1,253,166
Charges for services	2,576,463			2,500	2,578,963
Interest	99,673	127,310	29,240	7,003	263,226
Miscellaneous	1,493,607			144,675	1,638,282
Total Revenues	<u>22,873,900</u>	<u>1,328,706</u>	<u>29,240</u>	<u>219,408</u>	<u>24,451,254</u>
Expenditures					
Current:					
General administration	2,873,726				2,873,726
Financial administration	590,538				590,538
Municipal services and public works	4,466,640			38,193	4,504,833
Police and emergency services	11,101,060				11,101,060
Recreation and performing arts	421,868	541,202			963,070
Stafford Centre	1,737,639				1,737,639
Judicial	517,157			25,874	543,031
Capital Outlay	1,709,186	118,332	1,570,347	118,726	3,516,591
Debt Service:					
Principal	322,148				322,148
Interest and other charges	1,940				1,940
Bond issuance costs			183,096		183,096
Total Expenditures	<u>23,741,902</u>	<u>659,534</u>	<u>1,753,443</u>	<u>182,793</u>	<u>26,337,672</u>
Revenues over (under) expenditures	<u>(868,002)</u>	<u>669,172</u>	<u>(1,724,203)</u>	<u>36,615</u>	<u>(1,886,418)</u>
Other Financing Sources (Uses)					
Sale of bonds			8,930,000		8,930,000
Premiums on bonds			348,522		348,522
Transfers out	(645,837)				(645,837)
Total other financing sources (uses)	<u>(645,837)</u>		<u>9,278,522</u>		<u>8,632,685</u>
Net Changes in Fund Balances	(1,513,839)	669,172	7,554,319	36,615	6,746,267
Fund Balances - Beginning of Year	<u>6,708,588</u>	<u>7,164,855</u>	<u>5,511</u>	<u>469,887</u>	<u>14,348,841</u>
Fund Balances - End of Year	<u>\$ 5,194,749</u>	<u>\$ 7,834,027</u>	<u>\$ 7,559,830</u>	<u>\$ 506,502</u>	<u>\$ 21,095,108</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, 2018

Net change in fund balances - total governmental funds: \$ 6,746,267

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 \$2,656,577 was exceeded by depreciation of \$3,583,963 in the current period. (927,386)

Contributions of capital assets by component units and other governmental entities are not reported in the governmental fund financial statements as they do not represent a flow of current resources. 719,700

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. (107,374)

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. 75,826

Governmental funds report the proceeds of bond sales as another financial source or an increase to fund balance. In contrast, the Statement of Activities treats such proceeds as an increase in long-term liabilities. (9,278,522)

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. 322,147

Contributions made during the year, are treated as expenditures in the governmental funds but are treated as a reduction in post-employment liabilities in government wide financial statements.

Pension contributions 1,443,988
 OPEB benefits paid 3,299

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 (31,049)
 Compensated absences (126,835)
 Pension expense for the pension plan measurement year (1,509,760)
 OPEB expense for the measurement year (35,747)

Operations of Internal Service Funds not reported in Governmental Fund activities 739,788

Change in net position of governmental activities \$ (1,965,658)

See Notes to Basic Financial Statements.

CITY OF STAFFORD, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2018

	Governmental Activities
	Internal Service Fund
Assets	
Cash and cash equivalents	\$ 676,490
Accounts receivable, net	
Total Assets	<u>676,490</u>
Liabilities	
Claims payable	144,858
Due to other funds	531,632
Total Liabilities	<u>676,490</u>
Net Position	
Unrestricted	-
Total Net Position (Deficit)	<u>\$ -</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, 2018

	Governmental Activities
	Internal Service Fund
Operating Revenues	
Health Insurance Premiums	\$ 352,891
Total Operating Revenues	<u>352,891</u>
Operating Expenses	
Administrative Fees	<u>270,500</u>
Total Operating Expenses	<u>270,500</u>
Operating income (loss)	<u>82,391</u>
Non-Operating Revenues	
Earnings on Investments	<u>11,560</u>
Total Non-Operating Revenues	<u>11,560</u>
Transfers	
Transfer in from General Fund	<u>645,837</u>
Change in Net Position	739,788
Total Net Position (Deficit) - Beginning of Year	<u>(739,788)</u>
Total Net Position (Deficit) - End of Year	<u><u>\$ -</u></u>

See Notes to Basic Financial Statements.

CITY OF STAFFORD, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2018

	Governmental Activities
	Internal Service Fund
Cash Flows From Operating Activities	
Cash received from premiums	\$ 353,125
Cash paid for claims	(131,344)
Cash paid for administrative fees	(270,500)
Net cash provided by operating activities	<u>(48,719)</u>
 Cash Flows from Financing Activities	
Transfers from the general fund	120,235
Net cash provided by financing activities	<u>120,235</u>
 Cash Flows From Investing Activities	
Interest received	11,560
Net cash provided by investing activities	<u>11,560</u>
 Net increase (decrease) in cash and cash equivalents	83,076
Cash and cash equivalents - beginning of year	593,414
Cash and cash equivalents - end of year	<u>\$ 676,490</u>
 Reconciliation of operating income to net cash provided by operating activities	
Operating income (loss)	\$ 82,391
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
(Increase) decrease in other receivables	234
Increase (decrease) in claims payable	(131,344)
Net cash provided by operating activities	<u>\$ (48,719)</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 past self-funded medical insurance plan provided for the benefit of eligible employees. The City discontinued the self-insurance plan in 2017. This year's activity presented in the fund involve the closure of the fund as a financing mechanism for this program.

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.

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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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 post-employment benefits – Reported for the City and the SMSD in the government-wide financial statement of net position. This deferred outflow results from pension and OPEB plan contributions made after the measurement date of the post-employment liabilities 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 related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with benefits 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 post-employment activities – 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. Other Post-Employment Benefits

The City participates in a defined benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Statement No. 75.

M. 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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

N. 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.

Note 2 - Summary of Significant Accounting Policies (continued)

O. Fund Equity

As of September 30, 2018, 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.

P. 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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

Q. New Accounting Standards

In the current fiscal year, the City implemented the following new standards. The applicable provisions of these new standards are summarized here. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount that is one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

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, 2018, 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.

At September 30, 2018, in addition to petty cash, the carrying amount of the City's cash, savings, and time deposits of \$24.3 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.

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

Note 3 - Deposits and Investments (continued)

Investment Policy

The City held no investments at September 30, 2018. 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.

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.

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

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, 2018, are as follows:

	<u>General Fund</u>	<u>Hotel Occupancy Tax Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Receivables:				
Taxes				
Sales and use taxes	\$ 2,182,588	\$ 96,751	\$ 26,614	\$ 2,305,953
Fines and Forfeitures	6,440,920			6,440,920
Franchise taxes	377,064			377,064
Other governments	432,347			432,347
Other	34,300			34,300
Gross Receivables	<u>9,467,219</u>	<u>96,751</u>	<u>26,614</u>	<u>9,590,584</u>
Less: allowance for uncollectibles	<u>(5,950,698)</u>			<u>(5,950,698)</u>
Net Total Receivables	<u>\$ 3,516,521</u>	<u>\$ 96,751</u>	<u>\$ 26,614</u>	<u>\$ 3,639,886</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, 2018, consisted of the following individual fund receivables and payables:

<u>Payable Fund</u>	<u>General Fund</u>	<u>Receivable Fund Non-major Governmental Funds</u>	<u>Totals</u>
General Fund		179,763	179,763
Hotel Occupancy Fund	591,458		591,458
Capital Projects Fund	1,291,124		1,291,124
Non-Major Governmental Funds	179,763		179,763
Internal Service Fund	531,632		531,632
Total	<u>\$ 2,593,977</u>	<u>\$ 179,763</u>	<u>\$ 2,773,740</u>

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

During the year ended September 30, 2018, the general fund transferred \$645,837 to the Health Insurance Internal Service Fund in order to fund prior years' health insurance costs and close out the internal service fund.

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

Note 6 - Capital Assets

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

	Balance 9/30/2017	Additions	Deletions	Balance 9/30/2018
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 5,786,878	\$ 37,818	\$ (827,074)	\$ 4,997,622
Construction in progress	2,054,330	865,116		2,919,446
Total capital assets, not being depreciated	7,841,208	902,934	(827,074)	7,917,068
Capital assets being depreciated:				
Buildings	31,707,969	623,314		32,331,283
Improvements other than buildings	5,625,982			5,625,982
Machinery and equipment	17,141,389	922,814		18,064,203
Infrastructure	66,666,404	927,215		67,593,619
Total capital assets being depreciated	121,141,744	2,473,343		123,615,087
Less accumulated depreciation for:				
Buildings	(13,060,815)	(788,675)		(13,849,490)
Improvements other than buildings	(2,846,137)	(309,871)		(3,156,008)
Machinery and equipment	(12,316,547)	(1,199,085)		(13,515,632)
Infrastructure	(40,793,186)	(1,286,332)		(42,079,518)
Total accumulated depreciation	(69,016,685)	(3,583,963)		(72,600,648)
Total capital assets being depreciated, net	52,125,059	(1,110,620)		51,014,439
Governmental Activities				
Capital Assets, Net	\$ 59,966,267	\$ (207,686)	\$ (827,074)	\$ 58,931,507

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

Governmental Activities	
General administration	\$ 310,075
Municipal services and public works	1,492,847
Police and emergency services	973,488
Recreation and performing arts	774,298
Judicial	33,255
Total depreciation expense - governmental activities	<u><u>\$ 3,583,963</u></u>

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

Note 6 - Capital Assets (continued)

Construction in progress for various projects as of September 30, 2018, is as follows:

Governmental Activities	Authorized Contract	Total in Progress	Remaining Commitment
Missouri City Estates Drainage	\$ 1,202,831	\$ 348,344	\$ 854,487
Vaccaro Manor Drainage Improvement	855,590	1,016,852	(161,262)
Sugar Creek Drainage	111,811	379,832	(268,021)
New Fire Station	3,121,912	415,223	2,706,689
Police Department New Construction	2,601,588	161,912	2,439,676
W. Airport @ FM 1092	390,000	579,283	(189,283)
Kirkwood/Greenbrier/US59	375,000	440,341	(65,341)
Staffordshire/Stafford Rd. Sidewalk Proj	650,000	437,528	212,472
Stafford Center Projects	623,314	623,314	-
	<u>\$ 9,932,046</u>	<u>\$ 4,402,629</u>	<u>\$ 5,529,417</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, 2018, the City had excess sales taxes collected of \$4,289,277 over sales tax obligation debt requirements. These amounts have been recorded in the General Fund to be used as approved by City Council.

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, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Certificates of obligation	\$	\$ 8,930,000	\$	8,930,000	170,000
Premiums on issuance		348,522		348,522	
Capital leases payable	179,396		(179,396)		
Sales Tax obligations	2,141,531		(142,751)	1,998,780	142,751
Compensated absences - sick leave	1,151,955	800,870	(674,035)	1,278,790	35,973
Governmental Activities					
Long-term Liabilities	<u>\$ 3,472,882</u>	<u>\$ 10,079,392</u>	<u>\$ (996,182)</u>	<u>\$ 12,556,092</u>	<u>\$ 348,724</u>

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

Note 7 - Long-Term Debt (continued)

Certificates of Obligation

Outstanding debt for the primary government consists of the following certificates of obligation:

<u>Series</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
Series 2018 Combination Tax and Limited Surplus Revenue Certificates of Obligation	3.125%-5.000%	\$ 8,930,000	2042	<u>\$ 8,930,000</u>

Future debt service payments on certificates of obligation to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 170,000	\$ 435,019	\$ 605,019
2020	250,000	348,050	598,050
2021	255,000	336,550	591,550
2022	270,000	323,800	593,800
2023	280,000	310,300	590,300
2024-2028	1,570,000	1,330,750	2,900,750
2029-2033	1,875,000	948,832	2,823,832
2034-2038	2,200,000	609,113	2,809,113
2039-2042	2,060,000	190,313	2,250,313
	<u>\$ 8,930,000</u>	<u>\$ 4,832,727</u>	<u>\$ 13,762,727</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 prorated 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, 2018, are \$142,751 for fiscal years 2018 through 2031 and \$143,023 in fiscal year 2032, for a total of \$2.0 million.

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

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.

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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

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

Note 8 - Employee Retirement System (continued)

Employees covered by benefit terms –

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

Retirees or beneficiaries currently receiving benefits	77
Inactive employees entitled to but not yet receiving benefits	74
Active employees	<u>173</u>
	<u>324</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the 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 2018, the City made contributions of 15.04% for the months in 2017 and 14.69% for the months in 2018.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary Increases	3.5% to 10.5% including inflation
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.

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

Note 8 - Employee Retirement System (continued)

Actuarial Assumptions (continued)

Actuarial assumptions used in the December 31, 2017, 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 2017 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.

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
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.

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

Note 8 - Employee Retirement System (continued)

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

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

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City’s net pension liability	\$8,986,296	\$ 2,976,597	\$ (1,915,567)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2016	\$ 37,977,038	\$ 32,583,590	\$ 5,393,448
Changes for the year:			
Service Cost	1,810,024		1,810,024
Interest	2,572,565		2,572,565
Difference between expected and actual experience	(130,043)		(130,043)
Contributions - employer		1,485,955	(1,485,955)
Contributions - employee		691,603	(691,603)
Net Investment income		4,516,431	(4,516,431)
Benefit payments, including refunds, of employee contributions	(1,539,949)	(1,539,949)	
Administrative expense		(23,404)	23,404
Other changes		(1,188)	1,188
Net changes	<u>2,712,597</u>	<u>5,129,448</u>	<u>(2,416,851)</u>
Balance at 12/31/2017	<u>\$ 40,689,635</u>	<u>\$ 37,713,038</u>	<u>\$ 2,976,597</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.tmrs.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, 2018, the City recognized pension expense of \$1,509,760.

At September 30, 2018, 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	\$ 123,294	\$ 387,616
Differences in assumption changes	40,219	
Differences between projects and actual investment earnings		945,486
Contributions subsequent to the measurement date	<u>1,048,134</u>	
Total	<u><u>1,211,647</u></u>	<u><u>\$ 1,333,102</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>
2019	\$ (6,423)
2020	(79,120)
2021	(514,674)
2022	(546,099)
2023	(21,354)
2024	<u>(1,919)</u>
Total	<u><u>\$ (1,169,589)</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, 2018, 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 - Postemployment Benefits Other Than Pensions (OPEB)

TMRS Supplemental Death Benefits Fund

Benefit Plan Description

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 another postemployment benefit (OPEB). As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

Membership in the plan as of the measurement date of December 31, 2017 was as follows:

Inactive plan members or beneficiaries currently receiving benefits	62
Inactive plan members entitled to but not yet receiving benefits	15
Active employees	<u>173</u>
Total plan members	<u>250</u>

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

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city (currently 0.17% of covered payroll). The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees’ entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB No. 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.31% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2017. At transition, GASB No.75 also requires that the Total OPEB Liability as of the prior fiscal year end be estimated based on the 20 Year Bond GO Index as of the prior fiscal year end. The actuary has estimated the total OPEB liability as of December 31, 2016 using a discount rate of 3.78% as of December 31, 2016.

Actuarial Assumptions

The City’s Total OPEB Liability was measured at December 31, 2017 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Valuation Date: December 31, 2017

Methods and Assumptions:

Inflation:	2.50%
Salary Increases:	3.50% to 10.50%, including inflation
Discount rate:	3.31%. The discount rate was based on the Fidelity Index’s “20- Year Municipal GO AA Index” rate as of December 31, 2017.
Retirees’ share of benefit related costs:	\$0
Administrative expenses:	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates – disabled retirees:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

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

Other Information:

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

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at 12/31/2016	\$ 353,368
Changes for the year:	
Service Cost	17,784
Interest	13,619
Changes in assumptions	32,929
Benefit payments, including refunds, of employee contributions	<u>(3,952)</u>
Net changes	<u>60,380</u>
Balance at 12/31/2017	<u><u>\$ 413,748</u></u>

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 3.31%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or 1 percentage point higher (4.31%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

	1% Decrease in Discount Rate <u>(2.31%)</u>	Current Discount Rate <u>(3.31%)</u>	1% Increase in Discount Rate <u>(4.31%)</u>
City's net OPEB liability	\$498,492	\$ 413,748	\$ 348,289

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$35,747 relating to the SBFDF plan.

As of September 30, 2018, the City reported deferred outflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>
Differences in assumption changes	\$ 28,585
Contributions subsequent to the measurement date	<u>2,847</u>
Total	<u><u>31,432</u></u>

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

Deferred Outflows of Resources

The \$2,847 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending September 30, 2019.

Amounts currently reported as deferred outflows of resources related to OPEBs, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending</u>	Net Deferred Outflows (Inflows) of Resources
2018	\$ 4,344
2019	4,344
2020	4,344
2021	4,344
2022	4,344
2023 and thereafter	6,865
Total	<u>\$ 28,585</u>

Note 10 - 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 and police officers 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 \$197,028, with \$39,457 recorded as a receivable as of September 30, 2018, in the General Fund. The City also provides SMSD the use of the Civic Center at no charge.

Note 11 - 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, 2018, are as follows:

Street lighting participation	\$ 30,229
Street and drainage participation	<u>128,470</u>
Total	<u>\$ 158,699</u>

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

Note 12 - 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 13 - 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 14 – Prior Period Adjustment

GASB Statement No. 75 - Other Post-Employment Benefits

In the current fiscal year, the City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension. As a result, the beginning net position of the City’s governmental activities has been restated on the Statement of Activities to reflect the net OPEB liability and deferred outflow of resources relating to OPEB contributions made after the prior measurement date of the plan.

Net Position, as previously reported	\$ 67,531,617
Change in accounting principles:	
Add: deferred outflows for OPEB benefits	2,901
Less: Total OPEB liabilities	(353,368)
Net Position, as restated	<u><u>\$ 67,181,150</u></u>

Note 15 - 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. The Federal Emergency Management Agency (FEMA) accepted the City’s claim for reimbursement for emergency protective measures and debris removal costs totaling approximately \$750,000. Any amounts recovered through FEMA will be recognized in the City’s 2019 fiscal year.

(This page intentionally left blank.)

REQUIRED SUPPLEMENTARY INFORMATION

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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes	\$ 13,150,000	\$ 13,150,000	\$ 14,850,719	\$ 1,700,719
Fines and fees	1,600,000	1,600,000	1,363,730	(236,270)
Licenses and permits	1,102,500	1,102,500	1,236,542	134,042
Intergovernmental	1,885,439	1,885,439	1,253,166	(632,273)
Charges for services	2,595,400	2,595,400	2,576,463	(18,937)
Interest	44,191	44,234	99,673	55,439
Miscellaneous	1,167,250	1,167,250	1,493,607	326,357
Total Revenues	<u>21,544,780</u>	<u>21,544,823</u>	<u>22,873,900</u>	<u>1,329,077</u>
Expenditures				
Current:				
General administration	3,240,963	3,240,263	2,873,726	366,537
Financial administration	504,051	504,051	590,538	(86,487)
Municipal Services and public works	5,513,702	5,513,702	4,466,640	1,047,062
Police and emergency services	11,627,889	11,626,389	11,101,060	525,329
Recreation and performing arts	429,923	429,923	421,868	8,055
Stafford Centre	1,820,400	1,820,400	1,737,639	82,761
Judicial	538,421	538,421	517,157	21,264
Capital Outlay	2,242,007	2,242,007	1,709,186	532,821
Debt Service:				
Principal and interest	286,216	286,216	324,088	(37,872)
Interest and other charges	5,202	5,202		5,202
Total Expenditures	<u>26,208,774</u>	<u>26,206,574</u>	<u>23,741,902</u>	<u>2,464,672</u>
Revenues over (under) expenditures	(4,663,994)	(4,661,751)	(868,002)	3,793,749
Other Financing Sources (uses)				
Transfers out			(645,837)	(645,837)
Total other financing sources (uses)			<u>(645,837)</u>	<u>(645,837)</u>
Changes in fund balance	(4,663,994)	(4,661,751)	(1,513,839)	3,147,912
Fund Balance - Beginning of Year	<u>8,633,032</u>	<u>6,708,588</u>	<u>6,708,588</u>	
Fund Balance - End of Year	<u>\$ 3,969,038</u>	<u>\$ 2,046,837</u>	<u>\$ 5,194,749</u>	<u>\$ 3,147,912</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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Hotel occupancy taxes	\$ 1,100,000	\$ 1,100,000	\$ 1,201,396	\$ 101,396
Interest	40,000	40,000	127,310	87,310
Total Revenues	<u>1,140,000</u>	<u>1,140,000</u>	<u>1,328,706</u>	<u>188,706</u>
Expenditures				
Current:				
Recreation and performing arts	722,722	722,722	541,202	181,520
Capital Outlay	223,000	223,000	118,332	104,668
Total Expenditures	<u>945,722</u>	<u>945,722</u>	<u>659,534</u>	<u>286,188</u>
Changes in fund balance	194,278	194,278	669,172	474,894
Fund Balance - Beginning of Year	<u>7,076,213</u>	<u>7,164,855</u>	<u>7,164,855</u>	<u>88,642</u>
Fund Balance - End of Year	<u>\$ 7,270,491</u>	<u>\$ 7,359,133</u>	<u>\$ 7,834,027</u>	<u>\$ 474,894</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, 2018

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:				
Service cost	\$ 1,810,024	\$ 1,523,293	\$ 1,318,015	\$ 1,047,608
Interest	2,572,565	2,436,031	2,358,232	2,225,384
Changes of benefit terms			-	
Difference between expected and actual experience	(130,043)	(417,968)	260,796	(12,479)
Change in assumptions			85,075	
Benefit payments, including refunds of employee contributions	<u>(1,539,949)</u>	<u>(1,784,051)</u>	<u>(1,664,816)</u>	<u>(1,330,942)</u>
Net change in total pension liability	2,712,597	1,757,305	2,357,302	1,929,571
Total pension liability - beginning	<u>37,977,038</u>	<u>36,219,733</u>	<u>33,862,431</u>	<u>31,932,860</u>
Total pension liability - ending (a)	<u>\$ 40,689,635</u>	<u>\$ 37,977,038</u>	<u>\$ 36,219,733</u>	<u>\$ 33,862,431</u>
Plan fiduciary net position:				
Contributions - employer	\$ 1,485,955	\$ 1,223,185	\$ 1,129,513	\$ 1,007,242
Contributions - employee	691,603	590,097	527,809	478,662
Net investment income	4,516,431	2,062,493	45,017	1,643,366
Benefit payments, including refunds of employee contributions	(1,539,949)	(1,784,051)	(1,664,816)	(1,330,942)
Administrative expense	(23,404)	(23,292)	(27,419)	(17,158)
Other	<u>(1,186)</u>	<u>(1,255)</u>	<u>(1,354)</u>	<u>(1,411)</u>
Net change in plan fiduciary net position	5,129,450	2,067,177	8,750	1,779,759
Plan fiduciary net position - beginning	<u>32,583,590</u>	<u>30,516,413</u>	<u>30,507,663</u>	<u>28,727,904</u>
Plan fiduciary net position - ending (b)	<u>37,713,040</u>	<u>32,583,590</u>	<u>30,516,413</u>	<u>30,507,663</u>
Net pension liability - ending (a) - (b)	<u>\$ 2,976,595</u>	<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	92.68%	85.80%	84.25%	90.09%
Covered payroll (measurement year)	\$ 9,880,041	\$ 8,429,955	\$ 7,540,134	\$ 6,802,638
Net pension liability as a percentage of covered employee payroll	30.13%	63.98%	75.64%	49.32%

CITY OF STAFFORD, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
For the year ended September 30, 2018

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,443,390	\$ 1,436,970	\$ 1,193,121	\$ 1,057,340	\$ 1,042,715
Contribution in relation of the actuarially determined contribution	<u>1,443,390</u>	<u>1,436,970</u>	<u>1,193,121</u>	<u>1,057,340</u>	<u>985,363</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,352</u>
Covered employee payroll (fiscal year)	\$ 9,745,166	\$ 9,642,541	\$ 8,046,812	\$ 7,110,532	\$ 6,725,305
Contributions as a percentage of covered employee payroll	14.81%	14.90%	14.83%	14.87%	14.65%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	
Actuarially determined contribution	\$ 937,294	\$ 921,584	\$ 1,012,927	\$ 998,014	
Contribution in relation of the actuarially determined contribution	<u>862,664</u>	<u>811,344</u>	<u>814,144</u>	<u>775,756</u>	
Contribution deficiency (excess)	<u>\$ 74,630</u>	<u>\$ 110,240</u>	<u>\$ 198,783</u>	<u>\$ 222,258</u>	
Covered employee payroll (fiscal year)	\$ 6,033,033	\$ 5,818,677	\$ 6,029,363	\$ 5,931,095	
Contributions as a percentage of covered employee payroll	14.30%	13.94%	13.50%	13.08%	

Notes to Schedule:

Valuation Date:

Actuarial determined contribution rates are calculated as of December 31st 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	28 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.

CITY OF STAFFORD, TEXAS

REQUIRED OTHER POST EMPLOYMENT BENEFITS (OPEB) SUPPLEMENTARY INFORMATION

For the year ended September 30, 2018

**TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)
Schedule of Changes in Total OPEB Liability and Related Ratios
Last Measurement**

	<u>2017</u>
Total OPEB liability:	
Service cost	\$ 17,784
Interest	13,619
Change in assumptions	32,929
Benefit payments, including refunds of employee contributions	<u>(3,952)</u>
Net change in total OPEB liability	60,380
Total OPEB liability - beginning	<u>353,368</u>
Total OPEB liability - ending	<u>\$ 413,748</u>
Covered payroll (measurement year)	\$ 9,880,041
Total OPEB liability as a percentage of covered employee payroll	4.19%

Summary of Actuarial Assumptions:

Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Discount rate	* 3.31%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates	Service retirees RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates	Disabled retirees RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

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

(This page intentionally left blank.)

OTHER SUPPLEMENTAL INFORMATION

CITY OF STAFFORD, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2018

	<u>Courts Efficiency</u>	<u>Narcotic Seizure</u>	<u>Court Security</u>
Assets			
Cash and cash equivalents	\$	\$ 277,828	\$
Taxes receivable, net			
Due from other funds	4,912		24,071
Total Assets	<u>\$ 4,912</u>	<u>\$ 277,828</u>	<u>\$ 24,071</u>
 Liabilities			
Accounts payable	\$	\$ 1,350	\$
Due to other funds		125,661	6,453
Unearned revenue			
Total Liabilities		<u>127,011</u>	<u>6,453</u>
 Fund balances			
Restricted for			
Capital Projects			
Municipal court programs	4,912		17,618
Public safety programs		150,817	
Municipal services			
Total Fund Balances	<u>4,912</u>	<u>150,817</u>	<u>17,618</u>
 Total Liabilities and Fund Balances	 <u>\$ 4,912</u>	 <u>\$ 277,828</u>	 <u>\$ 24,071</u>

Court Technology	Child Safety Fees	Police Department Funds	Participation Agreements and Other	Total Non-Major Governmental Funds
\$	\$	\$ 20,023	\$ 169,911	\$ 467,762
63,082	76,862	10,836		179,763
<u>\$ 63,082</u>	<u>\$ 76,862</u>	<u>\$ 30,859</u>	<u>\$ 169,911</u>	<u>\$ 647,525</u>
\$	\$	\$	\$ 401	\$ 1,751
		1,265		133,379
		5,893		5,893
		<u>7,158</u>	<u>401</u>	<u>141,023</u>
63,082				85,612
	76,862	23,701		251,380
			169,510	169,510
<u>63,082</u>	<u>76,862</u>	<u>23,701</u>	<u>169,510</u>	<u>506,502</u>
<u>\$ 63,082</u>	<u>\$ 76,862</u>	<u>\$ 30,859</u>	<u>\$ 169,911</u>	<u>\$ 647,525</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, 2018

	<u>Courts Efficiency</u>	<u>Narcotic Seizure</u>	<u>Court Security</u>
Revenues			
Fines and forfeitures	\$ 2,269	\$	\$ 26,982
Charges for services			
Investment earnings		3,887	
Miscellaneous		115,717	
Total Revenues	<u>2,269</u>	<u>119,604</u>	<u>26,982</u>
Expenditures			
Current:			
Municipal services and public works	2,676		35,517
Judicial			
Capital Outlay		92,985	
Total Expenditures	<u>2,676</u>	<u>92,985</u>	<u>35,517</u>
Changes in Fund Balance	(407)	26,619	(8,535)
Fund Balances - Beginning of Year	<u>5,319</u>	<u>124,198</u>	<u>26,153</u>
Fund Balances - End of Year	<u>\$ 4,912</u>	<u>\$ 150,817</u>	<u>\$ 17,618</u>

Court Technology	Child Safety Fees	Police Department Funds	Participation Agreements and Other	Total Non-Major Governmental Funds
\$ 35,979	\$	\$	\$	\$ 65,230
		2,500		2,500
		326	2,790	7,003
	28,958			144,675
<u>35,979</u>	<u>28,958</u>	<u>2,826</u>	<u>2,790</u>	<u>219,408</u>
				38,193
25,874				25,874
24,476		1,265		118,726
<u>50,350</u>		<u>1,265</u>		<u>182,793</u>
(14,371)	28,958	1,561	2,790	36,615
77,453	47,904	22,140	166,720	469,887
<u>\$ 63,082</u>	<u>\$ 76,862</u>	<u>\$ 23,701</u>	<u>\$ 169,510</u>	<u>\$ 506,502</u>