

CITY OF FERRIS, TEXAS

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2018

CITY OF FERRIS, TEXAS
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended September 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor, City Council and City Manager
City of Ferris, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ferris, Texas, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ferris, Texas, 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, budgetary comparison information, net pension liability information, and OPEB information on pages 4-11 and 59-64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ferris, Texas' basic financial statements. The combining and individual fund financial statements and schedules, component unit financial statements, and supplementary financial data are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Yeldell, Wilson, Wood & Reeve, P.C.

Yeldell, Wilson, Wood & Reeve, P.C.
Certified Public Accountants

Ennis, Texas
October 29, 2019

CITY OF FERRIS, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$10,179,756 (net position). Of this amount, \$1,987,751 represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$197,268.
- As of the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,547,457, a decrease of \$231,554 in comparison with the prior year. Approximately 93% of this amount (\$1,446,713) is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$1,446,713 or 38% of the total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support 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 financial information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference 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 City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, cultural and recreational, and public works (streets). The business-type activities of the City include water and wastewater operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate economic development corporations for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 12-13 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.

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 assessing a government's near-term financing requirements.

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

The City maintains four 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, which is considered to be a major fund. Data from the other three 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 basic governmental fund financial statements can be found on pages 14-17 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. The *enterprise fund* is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprise fund to account for its water and wastewater operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Wastewater fund, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire 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 21-57 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligations to provide pension benefits to its employees. Required supplementary information can be found on page 58-64 of this report.

This report also presents combining and individual fund financial statements and schedules in connection with the nonmajor governmental funds and water and wastewater fund. These combining and individual fund financial statements and schedules can be found on pages 65-72 of this report.

In addition, this report presents fund financial statements and schedules in connection with the Ferris 4A Economic Development Corporation and Ferris 4B Economic Development Corporation. The individual fund financial statement and schedule can be found on pages 73-75 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$10,179,756, at the close of the most recent fiscal year.

CITY OF FERRIS' NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 1,945,188	\$ 2,039,108	\$ 756,808	\$ 716,575	\$ 2,701,996	\$ 2,755,683
Capital assets	7,190,558	7,304,272	2,514,266	2,599,467	9,704,824	9,903,739
Total assets	9,135,746	9,343,380	3,271,074	3,316,042	12,406,820	12,659,422
Deferred outflows of resources	107,739	248,481	10,802	26,038	118,541	274,519
Long-term liabilities	1,372,194	1,910,111	458,384	523,319	1,830,578	2,433,430
Other liabilities	209,028	222,453	134,397	171,159	343,425	393,612
Total liabilities	1,581,222	2,132,564	592,781	694,478	2,174,003	2,827,042
Deferred inflows of resources	149,400	110,479	22,202	13,932	171,602	124,411
Net position:						
Net investment in capital assets	6,017,019	5,787,785	2,074,266	2,114,467	8,091,285	7,902,252
Restricted	100,720	84,129	-	-	100,720	84,129
Unrestricted	1,395,124	1,476,904	592,627	519,203	1,987,751	1,996,107
Total net position	\$ 7,512,863	\$ 7,348,818	\$ 2,666,893	\$ 2,633,670	\$ 10,179,756	\$ 9,982,488

Certain reclassifications have been made to the prior year data to conform with current year presentation.

By far, the largest portion of the City's net position (79%) reflects its investments in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, 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 portion of the City's net position (1%) represents resources that are subject to external restriction on how they may be used. The remaining balance of \$1,987,751 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's overall net position increased \$197,268 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

CITY OF FERRIS' CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 457,170	\$ 476,483	\$ 1,407,371	\$ 1,315,826	\$ 1,864,541	\$ 1,792,309
Operating grants and contributions	135,522	152,733	-	-	135,522	152,733
Capital grants and contributions	254,619	142,329	21,400	-	276,019	142,329
General revenues:						
Property taxes	857,275	768,197	-	-	857,275	768,197
Sales taxes	282,070	238,417	-	-	282,070	238,417
Franchise taxes	127,920	122,510	-	-	127,920	122,510
Alcoholic beverage taxes	1,708	1,425	-	-	1,708	1,425
Host fees	1,492,125	1,500,287	-	-	1,492,125	1,500,287
Gas royalty	166,455	135,350	-	-	166,455	135,350
Investment earnings	7,265	7,822	491	509	7,756	8,331
Gain (loss) on sale of capital assets	-	21,631	-	132	-	21,763
Miscellaneous	53,769	29,591	-	13,887	53,769	43,478
Total revenues	<u>3,835,898</u>	<u>3,596,775</u>	<u>1,429,262</u>	<u>1,330,354</u>	<u>5,265,160</u>	<u>4,927,129</u>
Expenses:						
General government	1,128,110	778,263	-	-	1,128,110	778,263
Public safety	1,873,826	1,958,565	-	-	1,873,826	1,958,565
Cultural and recreational	370,695	348,746	-	-	370,695	348,746
Public works	328,594	433,132	-	-	328,594	433,132
Interest on long-term debt	59,777	72,103	-	-	59,777	72,103
Water and wastewater	-	-	1,306,890	1,196,069	1,306,890	1,196,069
Total expenses	<u>3,761,002</u>	<u>3,590,809</u>	<u>1,306,890</u>	<u>1,196,069</u>	<u>5,067,892</u>	<u>4,786,878</u>
Increase (decrease) in net position before transfers	74,896	5,966	122,372	134,285	197,268	140,251
Transfers	89,149	50,000	(89,149)	(50,000)	-	-
Increase (decrease) in net position	<u>164,045</u>	<u>55,966</u>	<u>33,223</u>	<u>84,285</u>	<u>197,268</u>	<u>140,251</u>
Net position - beginning as restated	7,348,818	7,292,852	2,633,670	2,549,385	9,982,488	9,842,237
Net position - ending	<u>\$ 7,512,863</u>	<u>\$ 7,348,818</u>	<u>\$ 2,666,893</u>	<u>\$ 2,633,670</u>	<u>\$ 10,179,756</u>	<u>\$ 9,982,488</u>

Certain reclassifications have been made to the prior year data to conform with current year presentation.

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$164,045 from the prior fiscal year for an ending balance of \$7,512,863.

- Capital contributions increased by \$112,290 (78.89%) during the year. The majority of this increase is due to a donation of land and donations related to the City's Yellowjacket Trail project.
- General government expenses increased \$346,847 (44.95%) during the year. The majority of this increase is the product of increased wages and other professional services.

- Public works expenses decreased \$104,538 (24.14%) during the year. The majority of this decrease is the product of reduced repair and maintenance and other professional service expenses.

Business-type Activities. For the City's business-type activities, the current fiscal year resulted in a net increase in net position to an ending balance of \$2,666,893. The total increase in net position for business-type activities (water and wastewater operations) was \$33,223 from the prior fiscal year. Revenues from charges for services increased 6.46% (\$84,975) due to an increase in the number of customers. Total expenses increased 8.72% (\$104,251) in the current fiscal year primarily due to an increase in repairs and maintenance.

Financial Analysis of Governmental Funds

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

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

At September 30, 2018, the City's governmental funds reported combined fund balances of \$1,547,457, a decrease of \$231,554 in comparison with the prior year. Approximately 93.5% of this amount (\$1,446,713) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is either nonspendable or restricted to indicate that it is 1) not in spendable form (\$24) or 2) restricted for particular purposes (\$100,720).

The General fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,446,713, while total fund balance increased to \$1,448,018. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total General fund expenditures. Unassigned fund balance represents approximately 38.07% of total General fund expenditures, while total fund balance represents approximately 38.10% of that same amount.

The fund balance of the City's General fund decreased \$247,689 during the current fiscal year.

Proprietary Funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Wastewater fund at the end of the year amounted to \$592,627. Net position increased in 2018 by \$33,223. Other factors concerning the finances of this fund have already been addressed in the analysis of the City's operations.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year, the City increased the original estimated expenditures of the general fund by \$323,653. This was offset with an increase revenues and the use of existing fund balance.

Final budget compared to actual results. General fund actual revenues of \$3,334,470 exceeded budgeted revenues of \$3,123,206 by \$211,264.

- The fines and forfeitures decrease of \$57,154 (13.3%) is primarily due to less citations issued than were budgeted.
- The host fee increase of \$104,774 (7.5%) is due to the landfill increasing its hours of operation.
- The contributions and donations increase of \$77,366 (52.6%) is primarily the result of a an unbudgeted donation towards the City's Yellowjacket Trail project.

Budgeted general fund expenditures of \$3,812,320 exceeded actual expenditures of \$3,670,275 by \$142,045. This positive variance in expenditures was achieved through a series of expenditure restrictions imposed during the year.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018 amounts to \$9,704,824 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment and infrastructure. The total decrease in capital assets for the current fiscal year was approximately 2.01%.

City of Ferris' Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 603,047	\$ 553,827	\$ 27,817	\$ 27,817	\$ 630,864	\$ 581,644
Construction in progress	-	44,643	48,690	-	48,690	44,643
Buildings	1,141,695	1,365,412	36,117	41,826	1,177,812	1,407,238
Improvements	116,360	134,123	2,305,543	2,461,266	2,421,903	2,595,389
Machinery and equipment	507,998	505,842	96,099	68,558	604,097	574,400
Infrastructure	4,821,458	4,700,425	-	-	4,821,458	4,700,425
Total	\$ 7,190,558	\$ 7,304,272	\$ 2,514,266	\$ 2,599,467	\$ 9,704,824	\$ 9,903,739

Major capital asset events during the current fiscal year included the following:

- Land additions of approximately \$49,000.
- Machinery and equipment purchases of approximately \$272,000.
- Machinery and equipment disposals of approximately \$462,000.
- Infrastructure additions of approximately \$349,000
- Building disposals of approximately \$121,000.

Additional information on the City's capital assets can be found in note 2.D on pages 33-34 of this report.

Long-term debt. At the end of the current fiscal year, the City had a total bonded debt of \$1,610,000. This amount is backed by the full faith and credit of the government.

City of Ferris' Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Certificates of obligation	\$ 905,000	\$ 1,000,000	\$ 440,000	\$ 485,000	\$ 1,345,000	\$ 1,485,000
Tax and revenue refunding bonds	265,000	520,000	-	-	265,000	520,000
Total	\$ 1,170,000	\$ 1,520,000	\$ 440,000	\$ 485,000	\$ 1,610,000	\$ 2,005,000

Additional information on the City of Ferris' long term-debt can be found in note 2.H on pages 39-41 of this report.

Economic Factors and Next Year's Budgets and Rates

In the 2018-19 Budget, General Fund budgeted revenues increased 2.21% from the 2017-18 budget year with host fees and property taxes making up 43.99% and 23.26% of general fund budgeted revenues, respectively.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Secretary, 100 Town Plaza, Ferris, Texas 75125.

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

				Component Units	
				Ferris 4A	Ferris 4B
	Governmental	Business-type	Total	Economic Development Corporation	Economic Development Corporation
	Activities	Activities			
ASSETS					
Cash and cash equivalents	\$ 1,263,918	\$ 622,769	\$ 1,886,687	\$ 491,616	\$ 288,675
Receivables (net of allowance for uncollectibles)	646,953	129,178	776,131	-	-
Due from primary government	-	-	-	28,535	28,535
Inventories	24	-	24	-	-
Restricted assets:					
Cash and cash equivalents	-	-	-	63,606	-
Net pension asset	34,293	4,861	39,154	-	-
Capital assets:					
Non-depreciable	603,047	76,507	679,554	948,199	-
Depreciable (net of accumulated depreciation)	6,587,511	2,437,759	9,025,270	1,063	-
Total Assets	9,135,746	3,271,074	12,406,820	1,533,019	317,210
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	19,606	-	19,606	-	-
Deferred outflows of resources related to pensions	80,523	9,724	90,247	-	-
Deferred outflows of resources related to OPEB	7,610	1,078	8,688	-	-
Total Deferred Outflows of Resources	107,739	10,802	118,541	-	-
LIABILITIES					
Accounts payable and other current liabilities	117,408	45,334	162,742	8,992	-
Accrued payroll payable	30,764	4,911	35,675	-	-
Accrued interest payable	3,786	1,621	5,407	9,891	-
Due to component units	57,070	-	57,070	-	-
Customer deposits payable	-	82,531	82,531	-	-
Noncurrent liabilities:					
Due within one year	434,332	49,459	483,791	22,687	-
Due in more than one year	937,862	408,925	1,346,787	729,718	-
Total Liabilities	1,581,222	592,781	2,174,003	771,288	-
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources related to pensions	149,400	22,202	171,602	-	-
Total Deferred Inflows of Resources	149,400	22,202	171,602	-	-
NET POSITION					
Net investment in capital assets	6,017,019	2,074,266	8,091,285	196,857	-
Restricted for:					
Debt service	58,462	-	58,462	63,606	-
Economic development	-	-	-	501,268	317,210
Public safety	42,258	-	42,258	-	-
Unrestricted	1,395,124	592,627	1,987,751	-	-
Total Net Position	\$ 7,512,863	\$ 2,666,893	\$ 10,179,756	\$ 761,731	\$ 317,210

The notes to financial statements are an integral part of this statement.

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

Function/Program Activities	Net (Expense) Revenue and Changes in Net Position									
	Program Revenues					Primary Government				
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Ferris 4A Economic Development Corporation	Ferris 4B Economic Development Corporation		
Expenses										
\$1,128,110	\$ 69,664	\$ 114,853	\$ 49,220	\$ (894,373)	\$ -	\$ (894,373)	\$ -	\$ -		
1,873,826	387,506	5,019	136,608	(1,344,693)	-	(1,344,693)	-	-		
370,695	-	15,650	68,791	(286,254)	-	(286,254)	-	-		
328,594	-	-	-	(328,594)	-	(328,594)	-	-		
59,777	-	-	-	(59,777)	-	(59,777)	-	-		
3,761,002	457,170	135,522	254,619	(2,913,691)	-	(2,913,691)	-	-		
Total governmental activities										
Business-type activities:										
Water and wastewater	1,306,890	1,407,371	-	-	121,881	121,881	-	-		
Total business-type activities	1,306,890	1,407,371	-	-	121,881	121,881	-	-		
Total primary government	\$5,067,892	\$ 1,864,541	\$ 276,019	(2,913,691)	121,881	(2,791,810)	-	-		
Component Units										
Ferris 4A Economic Development Corporation	\$ 112,160	\$ -	\$ -	\$ -	-	-	(112,160)	-		
Ferris 4B Economic Development Corporation	67,564	-	-	-	-	-	-	(67,564)		
Total component units	\$ 112,160	\$ -	\$ -	\$ -	-	-	(112,160)	(67,564)		
General revenues:										
Property taxes				857,275	-	857,275	-	-		
Sales taxes				282,070	-	282,070	141,035	141,035		
Franchise taxes				127,920	-	127,920	-	-		
Alcoholic beverage taxes				1,708	-	1,708	-	-		
Host fees				1,492,125	-	1,492,125	-	-		
Gas royalty				166,455	-	166,455	-	-		
Investment earnings				7,265	491	7,756	1,290	474		
Miscellaneous				53,769	-	53,769	400	400		
Transfers				89,149	(89,149)	-	-	-		
Total general revenues and transfers				3,077,736	(88,658)	2,989,078	142,725	141,909		
Change in net position				164,045	33,223	197,268	30,565	74,345		
Net position - beginning, as restated				7,348,818	2,633,670	9,982,488	731,166	242,865		
Net position - ending				\$ 7,512,863	\$ 2,666,893	\$10,179,756	\$ 761,731	\$ 317,210		

The notes to financial statements are an integral part of this statement.

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

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,164,479	\$ 99,439	\$ 1,263,918
Receivables (net of allowance for uncollectibles)	646,953	-	646,953
Inventories	24	-	24
Total assets	<u>\$ 1,811,456</u>	<u>\$ 99,439</u>	<u>\$ 1,910,895</u>
LIABILITIES			
Accounts payable	\$ 117,408	\$ -	\$ 117,408
Accrued payroll payable	30,764	-	30,764
Due to component units	57,070	-	57,070
Total liabilities	<u>205,242</u>	<u>-</u>	<u>205,242</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	30,098	-	30,098
Unavailable revenue - gas royalty	128,098	-	128,098
	<u>158,196</u>	<u>-</u>	<u>158,196</u>
FUND BALANCES			
Nonspendable:			
Inventories	24	-	24
Restricted:			
Debt service	-	58,462	58,462
Public safety	1,281	40,977	42,258
Unassigned	1,446,713	-	1,446,713
Total fund balances	<u>1,448,018</u>	<u>99,439</u>	<u>1,547,457</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,811,456</u>	<u>\$ 99,439</u>	<u>\$ 1,910,895</u>

The notes to financial statements are an integral part of this statement.

CITY OF FERRIS, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
September 30, 2018

Amounts reported for governmental activities in the statement of net position (page 12) are different because:

Total fund balances - governmental funds (page 14)		\$ 1,547,457
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		7,190,558
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		158,196
Net pension asset and deferred outflows of resources are not reported in the governmental funds:		
Net pension asset	\$ 34,293	
Deferred charge on refunding	19,606	
Deferred outflows of resources related to pensions	80,523	
Deferred outflows of resources related to OPEB	<u>7,610</u>	142,032
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.		(3,786)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Due within one year	(434,332)	
Due in more than one year	<u>(937,862)</u>	(1,372,194)
Deferred inflows of resources are not reported in the governmental funds:		
Deferred inflows of resources related to pensions		<u>(149,400)</u>
Net position of governmental activities (page 12)		<u><u>\$ 7,512,863</u></u>

The notes to financial statements are an integral part of this statement.

CITY OF FERRIS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 588,644	\$ 281,006	\$ 869,650
Sales taxes	282,070	-	282,070
Franchise taxes	127,920	-	127,920
Alcoholic beverage taxes	1,708	-	1,708
Licenses and permits	69,664	-	69,664
Fines and forfeitures	371,646	15,860	387,506
Host fee	1,492,125	-	1,492,125
Gas royalty	38,358	-	38,358
Revenues from use of money and property	7,089	176	7,265
Other	50,304	-	50,304
Intergovernmental	116,346	-	116,346
Contributions and donations	224,574	-	224,574
Total revenues	<u>3,370,448</u>	<u>297,042</u>	<u>3,667,490</u>
EXPENDITURES			
Current:			
General government	1,064,227	-	1,064,227
Public safety	1,901,935	9,709	1,911,644
Cultural and recreational	242,316	-	242,316
Public works	457,922	-	457,922
Debt service:			
Principal retirement	95,000	255,000	350,000
Interest and fiscal charges	39,206	14,562	53,768
Total expenditures	<u>3,800,606</u>	<u>279,271</u>	<u>4,079,877</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(430,158)</u>	<u>17,771</u>	<u>(412,387)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	90,785	-	90,785
Transfers out	-	(1,636)	(1,636)
Insurance proceeds	3,465	-	3,465
Proceeds from sale of capital assets	88,219	-	88,219
Total other financing sources (uses)	<u>182,469</u>	<u>(1,636)</u>	<u>180,833</u>
Net change in fund balances	(247,689)	16,135	(231,554)
Fund balances - beginning	<u>1,695,707</u>	<u>83,304</u>	<u>1,779,011</u>
Fund balances - ending	<u>\$ 1,448,018</u>	<u>\$ 99,439</u>	<u>\$ 1,547,457</u>

The notes to financial statements are an integral part of this statement.

CITY OF FERRIS, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2018

Amounts reported for governmental activities in the statement of activities (page 13) are different because:

Net Change in Fund Balances - total governmental funds (page 16)	\$ (231,554)
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Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period.	586,442
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The net effect of various miscellaneous transactions involving capital assets (i.e., asset retirements/disposals) is to decrease net position.	(165,747)
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Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.	(534,409)
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The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bond principal retirement	\$ 350,000	
Amortization of bond premiums/discounts	2,751	
Amortization of bond refunding losses	(9,803)	342,948

Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. Change in accrued interest.	1,044
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	115,722
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Pension and OPEB contributions are recorded as expenditures in the governmental funds. However, in the statement of activities, these contributions are converted to the full accrual GASBS 68 pension amounts.

Deferred outflows/inflows of resources related to pension	(175,689)	
Deferred outflows/inflows of resources related to OPEB	5,829	(169,860)

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

Compensated absences	(16,887)	
Net pension liability/asset	254,229	
OPEB liability	(17,883)	219,459

Change in net position of governmental activities (page 13)	\$ 164,045
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The notes to financial statements are an integral part of this statement.

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

	Business-type Activities - Enterprise (Water and Wastewater) Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 622,769
Receivables (net of allowance for uncollectibles)	129,178
Total current assets	<u>751,947</u>
Noncurrent assets:	
Net pension asset	4,861
Capital assets (net of accumulated depreciation)	2,514,266
Total noncurrent assets	<u>2,519,127</u>
Total assets	<u>3,271,074</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pension	9,724
Deferred outflows of resources related to OPEB	1,078
Total deferred outflows of resources	<u>10,802</u>
LIABILITIES	
Current liabilities:	
Accounts payable	45,334
Accrued payroll payable	4,911
Accrued interest payable	1,621
Compensated absences	4,459
Customer deposits payable	82,531
Bonds payable	45,000
Total current liabilities	<u>183,856</u>
Noncurrent liabilities:	
OPEB liability	13,925
Bonds payable	395,000
Total noncurrent liabilities	<u>408,925</u>
Total liabilities	<u>592,781</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pension	22,202
Total deferred inflows of resources	<u>22,202</u>
NET POSITION	
Net investment in capital assets	2,074,266
Unrestricted	592,627
Total net position	<u>\$ 2,666,893</u>

The notes to financial statements are an integral part of this statement.

CITY OF FERRIS, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2018

	Business-type Activities - Enterprise (Water and Wastewater) Fund
OPERATING REVENUES	
Water sales	\$ 690,379
Wastewater service	584,840
Miscellaneous	132,152
Total operating revenues	<u>1,407,371</u>
OPERATING EXPENSES	
Water and wastewater	1,102,955
Depreciation	182,849
Total operating expenses	<u>1,285,804</u>
Operating income	<u>121,567</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	491
Interest and fiscal charges	(21,086)
Total nonoperating revenue (expenses)	<u>(20,595)</u>
Income before transfers and contributions	100,972
Capital contributions	21,400
Transfer out	<u>(89,149)</u>
Change in net position	33,223
Net position - beginning, as restated	2,633,670
Net position - ending	<u><u>\$ 2,666,893</u></u>

The notes to financial statements are an integral part of this statement.

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

	Business-type Activities - Enterprise (Water and Wastewater) Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,413,294
Payments to suppliers	(848,516)
Payments to employees	(275,753)
Net cash provided by (used for) operating activities	<u>289,025</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(89,149)
Net cash provided by (used for) noncapital financing activities	<u>(89,149)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	21,400
Acquisition and construction of capital assets	(97,648)
Principal paid on bond maturities	(45,000)
Interest and fiscal charges paid on bonds	(21,252)
Net cash provided by (used for) capital and related financing activities	<u>(142,500)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	491
Net cash provided by investing activities	<u>491</u>
Net increase in cash and cash equivalents	57,867
Cash and cash equivalents October 1	<u>564,902</u>
Cash and cash equivalents September 30	<u><u>\$ 622,769</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:	
Operating income	\$ 121,567
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	182,849
(Increase) decrease in accounts receivable	15,889
(Increase) decrease in inventories	2,241
(Increase) decrease in prepaid expenses	4,365
(Increase) decrease in net pension asset	(4,861)
(Increase) decrease in pension related deferred outflows	16,062
(Increase) decrease in OPEB related deferred outflows	(826)
Increase (decrease) in accounts payable	(26,854)
Increase (decrease) in accrued payroll payable	224
Increase (decrease) in compensated absences	3,933
Increase (decrease) in customer deposits	(9,966)
Increase (decrease) in pension related deferred inflows	8,270
Increase (decrease) in net pension liability	(26,401)
Increase (decrease) in OPEB liability	2,533
Total adjustments	<u>167,458</u>
Net cash provided by (used for) operating activities	<u><u>\$ 289,025</u></u>

The notes to financial statements are an integral part of this statement.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of government-wide 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 and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting entity

The City of Ferris, Texas (the "City") is a general law municipality and was incorporated 1874. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units.

Discretely presented component units. The Corporations described below are included in the City's reporting entity because the City appoints the governing body and the Corporations are fiscally dependent on the City. The Corporations are reported as discretely presented component units since the governing body is not substantively the same as the governing body of the City, and they provides services to the citizens of Ferris and the surrounding area as opposed to only the primary government. To emphasize that they are legally separate from the City, they are reported in separate columns in the financial statements.

The *Ferris 4A Economic Development Corporation* was created under Section 4A of the Development Corporation Act of 1979, as amended, Article 5190.6, Vernon's Texas civil statutes, as amended, and is responsible for collecting and disbursing the one-fourth percent sales tax to be used for economic development within the City. The members of the Corporation's board are appointed by the City. The Corporation is presented as a governmental fund type and has a September 30 year-end.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting entity (continued)

The *Ferris 4B Economic Development Corporation* was created under Section 4B of the Development Corporation Act of 1979, as amended, Article 5190.6, Vernon's Texas civil statutes, as amended, and is responsible for collecting and disbursing the one-fourth percent sales tax to be used for economic development within the City. The members of the Corporation's board are appointed by the City. The Corporation is presented as a governmental fund type and has a September 30 year-end.

Separate financial statements for the Corporations are not issued.

C. Basis of presentation - government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise fund. Separate financial statements are provided for governmental funds and proprietary funds.

As discussed earlier, the City has discretely presented component units. The Ferris 4A Economic Development Corporation and Ferris 4B Economic Development Corporation are considered to be major component units and are shown in separate columns in the government-wide financial statements.

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

D. Basis of presentation - fund financial statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of presentation - fund financial statements (continued)

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

The *water and wastewater fund* accounts for the activities of the City's water distribution and wastewater collection system.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Measurement focus and basis of accounting (continued)

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, 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 if received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and cash equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments (including restricted assets) with a maturity of three months or less from the date of acquisition.

2. Receivables and Allowances for Doubtful Accounts

All trade and property tax receivables are shown net of an allowance for uncollectibles. All past due trade accounts receivables comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is the lesser of .2 percent of the tax levy for each fiscal year or the outstanding property taxes for each fiscal year at year end.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

3. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

As the City constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Buildings	45
Improvements	25
Machinery and equipment	3-6
Infrastructure	25

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance
(continued)**

5. 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. Deferred outflows of resources reported in this year's financial statements include (1) a deferred outflow of resources related to changes in actuarial assumptions of the City's defined benefit pension plan and OPEB plan, (2) a deferred outflow of resources for contributions made to the City's defined benefit pension plan and OPEB plan between the measurement date of the net pension liabilities from that plan and the end of the City's fiscal year, and (3) deferred charge on refunding. Deferred outflows for changes in actuarial assumptions is attributed to pension expense over a total of 1.57 years. Deferred outflows of resources for changes in actuarial assumptions is attributed to OPEB expense over a total of 4.97 years. Deferred outflows for pension and OPEB contributions will be recognized in the subsequent fiscal year. 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. No deferred outflows of resources affect the governmental funds financial statements in the current year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources are reported in the City's various statements of net position for (1) deferred inflow of resources related to the differences between the projected and actual investment earnings for the City's multiple-employer defined benefit plan, (2) deferred inflow of resources related to the difference between expected and actual experience data used by the actuary. The differences between the projected and actual investment earnings are attributed to pension expense over a total of 5 years, including the current year. The deferred inflow of resources related to the difference between expected and actual experience data used by the actuary is attributed to pension expense over a total of 2.89 years, including the current year. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenue from property taxes is reported in the governmental funds balance sheet.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

6. Long-term obligations

In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest 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 debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Net position flow assumption

Net position represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets —This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position —This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position —This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. Fund balance flow assumption

The governmental fund financial statements present fund balance categorized based on the nature and extent of the constraints placed on the specific purposes for which a government's funds may be spent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance—amounts that are not in spendable form (such as inventories and prepaid items) or are required to be maintained intact.

Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Councils). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.

Unassigned fund balance—amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned. Positive balances are reported only in the general fund.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

In the general fund, the City's underlying and overriding financial reserve strategy is to maintain the unassigned fund balance at a level of 20% of annual operating expenditures, excluding capital expenditures.

G. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as *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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Ellis Appraisal District as market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. The Ellis County Tax Assessor/Collector bills and collects the City's property taxes, which are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time substantially all property taxes are collected.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenues and expenditures/expenses (continued)

3. *Compensated absences*

The City's policy permits employees to accumulate earned but unused vacation pay benefits. The liability for such unused vacation is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable. Unused vacation shall be taken during the year following its accumulation.

4. *Proprietary funds operating and nonoperating revenues and expenses*

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

5. *Pensions and Other Post Employment Benefits (OPEB)*

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 and the Texas Emergency Services Retirement System (Systems) and additions to/deductions from the Systems' fiduciary net position have been determined on the same basis as they are reported by the Systems. 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.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenues and expenditures/expenses (continued)

GASB 75 requires recognition of the Total OPEB Liability (TOL), deferred (inflows)/outflows of resources, and total OPEB expense on the face of the employer's financial statements. The TOL is calculated by the System's actuary in accordance with the provisions of GASB 75. The OPEB expense and deferred (inflows)/outflows of resources related to OPEB, which are required to be reported by an employer, primarily result from changes in the components of the TOL. Most changes in the TOL will be included in OPEB expense in the period of the change. For example, changes in the TOL resulting from current-period service cost, interest on the TOL, and changes of benefit terms are required to be included in OPEB expense immediately. Changes in the TOL that have not been included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB.

H. New GASB pronouncement

The Governmental Accounting Standards Board has issued a new pronouncement that the City has reviewed for application to their accounting and reporting.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for periods beginning after June 15, 2017, replaces the requirements of GASB Statements No. 45 and 57 for OPEB. The standard requires government employers to recognize a total OPEB liability in the Statement of Net Position. OPEB expense is tied to the change in total OPEB liability from year to year. OPEB expense is put in each employer's Statement of Changes in Net Position ("Operating Statement") in the government-wide financial statements. OPEB costs may be deferred and amortized over a number of years.

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash deposits with financial institutions

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully insured or collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year-end, the City's bank balance was \$1,919,773. Of the bank balance, \$349,560 was covered by federal depository insurance and the remaining balance, \$1,570,213 was covered by collateral pledged in the City's name. The collateral was held in the City's name by the safekeeping departments of the pledging bank's agent and had a fair value of approximately \$2,241,000.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

B. Investments

Investments. Public funds of the City of Ferris may be invested in the following: (1) obligations of the United States of America, its agencies and instrumentalities, (2) direct obligations of the State of Texas and agencies thereof, (3) other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas and United States of America, (4) obligations of the States, agencies thereof, Counties, Cities and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than “A” or its equivalent; (5) certificates of deposit of state and national banks domiciled in Texas, guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations described in 1 through 4 above, (6) fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities pledged with a third party, and (7) joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law.

C. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general and water and wastewater funds in the aggregate, including the applicable allowances for uncollectible accounts:

Receivables:	General	Water and Wastewater	Total
Taxes	\$ 167,081	\$ -	\$ 167,081
Accounts	-	171,738	171,738
Other	498,641	-	498,641
Gross receivables	665,722	171,738	837,460
Less: allowance for uncollectibles	(18,769)	(42,560)	(61,329)
Net receivables	<u>\$ 646,953</u>	<u>\$ 129,178</u>	<u>\$ 776,131</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

D. Capital assets

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

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 553,827	\$ 49,220	\$ -	\$ 603,047
Construction in progress	44,643	313,725	(358,368)	-
Total capital assets not being depreciated	598,470	362,945	(358,368)	603,047
Capital assets being depreciated:				
Buildings	2,049,528	-	(120,603)	1,928,925
Improvements	179,170	-	-	179,170
Machinery and equipment	2,237,507	223,496	(443,450)	2,017,553
Infrastructure	7,423,957	349,482	-	7,773,439
Totals capital assets being depreciated	11,890,162	572,978	(564,053)	11,899,087
Less accumulated depreciation for:				
Buildings	(684,116)	(113,391)	10,277	(787,230)
Improvements	(45,047)	(17,763)	-	(62,810)
Machinery and equipment	(1,731,665)	(174,806)	396,916	(1,509,555)
Infrastructure	(2,723,532)	(228,449)	-	(2,951,981)
Total accumulated depreciation	(5,184,360)	(534,409)	407,193	(5,311,576)
Total capital assets, being depreciated, net	6,705,802	38,569	(156,860)	6,587,511
Governmental activities capital assets, net	\$ 7,304,272	\$ 401,514	\$ (515,228)	\$7,190,558

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

Governmental activities:

General government	\$ 25,481
Public safety	192,730
Cultural and recreational	135,880
Public works	180,318
Total depreciation expense - governmental activities	<u>\$ 534,409</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

D. Capital assets (continued)

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 27,817	\$ -	\$ -	\$ 27,817
Construction in progress	-	48,690	-	48,690
Total capital assets not being depreciated	<u>27,817</u>	<u>48,690</u>	<u>-</u>	<u>76,507</u>
Capital assets being depreciated:				
Buildings	179,276	-	-	179,276
Improvements	5,949,258	-	-	5,949,258
Machinery and equipment	322,262	48,958	(18,659)	352,561
Total capital assets being depreciated	<u>6,450,796</u>	<u>48,958</u>	<u>(18,659)</u>	<u>6,481,095</u>
Less accumulated depreciation for:				
Buildings	(137,450)	(5,709)	-	(143,159)
Improvements	(3,487,992)	(155,723)	-	(3,643,715)
Machinery and equipment	(253,704)	(21,417)	18,659	(256,462)
Total accumulated depreciation	<u>(3,879,146)</u>	<u>(182,849)</u>	<u>18,659</u>	<u>(4,043,336)</u>
Total capital assets being depreciated, net	<u>2,571,650</u>	<u>(133,891)</u>	<u>-</u>	<u>2,437,759</u>
Business-type capital assets, net	<u><u>\$ 2,599,467</u></u>	<u><u>\$ (85,201)</u></u>	<u><u>\$ -</u></u>	<u><u>\$2,514,266</u></u>

Certain reclassifications have been made to the prior year data to conform with current year presentation.

As of September 30, 2018, the City has active construction projects for water improvements. At year end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining commitment</u>
Water improvements	<u>\$ 48,690</u>	<u>\$ 26,060</u>

E. Significant commitments

The City has entered into a contract with the Trinity River Authority of Texas (Authority) – Ten Mile Regional Wastewater System to obtain wastewater treatment services, expiring in 2036. In the contract, the Authority agreed to acquire and construct a regional wastewater treatment system to serve the City and other contractual parties, in the area of the watershed or drainage basin of Red Oak Creek, being a tributary of the Trinity River, and located in Ellis and Dallas Counties, Texas. The Trinity River Authority is a governmental agency, which is controlled by directors appointed by the governor.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

E. Significant commitments (continued)

The City is responsible for a proportionate share of the system's annual operation, maintenance and debt service costs for the term of the contract. These costs are determined annually and are payable in monthly installments. The estimated future contracted payments due under the contract as of September 30, 2018 are shown below:

<u>Year Ending September 30</u>	<u>Monthly</u>	<u>Annual</u>
2019	\$ 24,704	\$ 296,448
2020	25,214	302,568
2021	25,696	308,352
2022	26,174	314,088
2023	26,623	319,476
2024-2028	136,508	1,638,096
2029-2033	128,192	1,538,304
2034-2036	100,076	1,200,912
	<u>\$ 493,187</u>	<u>\$ 5,918,244</u>

Expenses incurred for the year ended September 30, 2018 were \$296,924. The payments to be received from the City of Ferris, Texas are used as collateral for the bonds issued by TRA to construct the facility.

The City has entered into a contract with the Authority whereby the City acquired the right to purchase .72 million gallons per day (MGD) of water annually from the Authority through its raw water supply contract with Tarrant County Water Control and Improvement District Number One. The contract is for a period of forty years commencing December 1, 1991 and ending November 30, 2031. The Authority is a governmental agency, which is controlled by directors appointed by the governor. The City agreed to pay to the Authority \$60 each month increasing \$1.50 per month each fiscal year for the Authority's costs and expenses of administering the contract. A current schedule of estimated future contractual payments due the Authority is shown below:

<u>Year Ending September 30</u>	<u>Amount</u>
2019	\$ 3,618
2020	3,672
2021	3,726
2022	3,780
2023	3,834
2024-2028	19,980
2029-2031	12,636
	<u>\$ 51,246</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

E. Significant commitments (continued)

The City has entered into an agreement with the Authority whereby the Authority will provide inspection, sampling, and analytical services for the City for a period of five years commencing October 1, 2015 and expiring September 30, 2020. Total payment from the City to the Authority will not exceed \$75,000 for the period of this contract and shall not exceed \$15,000 per year.

Complete separate financial statements for the Trinity River Authority may be obtained at Trinity River Authority of Texas, 5300 South Collins, P.O. Box 60, Arlington, Texas 76004.

The City has entered into a contract with Rockett Special Utility District (the “District”) whereby the District agrees to sell treated water to the City. The contract requires the City to purchase at least an average of 100,000 gallons per day on an annualized basis whether or not the City actually takes and utilizes said water amount. The contract is for a period of twenty years commencing October 15, 2012 and ending October 14, 2032.

A schedule of future minimum payments due the District at the current rate of \$5.09 per thousand gallons is shown below:

<u>Year Ending September 30</u>	<u>Amount</u>
2019	\$ 185,785
2020	189,435
2021	195,275
2022	195,275
2023	195,275
2024-2028	976,375
2029-2032	781,100
	<u>\$ 2,718,520</u>

Incurred expenses for the year ended September 30, 2018 were \$184,117.

The City has entered into a contract with CareFlite to provide EMS ambulance services, effective October 1, 2013 and expiring September 30, 2018. Costs are determined annually and are payable in monthly installments. The City has agreed to pay CareFlite on an annual basis at a rate of \$36,000 per year, which shall be paid in twelve equal monthly installments. Subsequent to year end this contract was renewed for additional 5 years.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

E. Significant commitments (continued)

The City has entered into a noncancellable operating lease for modular building to serve as police and fire department offices, effective February 26, 2016 and expiring February 26, 2018. During the current year, the lease term was extended to February 19, 2019. The lease term future minimum operating lease commitments are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Amount</u>
2019	<u>\$ 12,750</u>

Expenses incurred for the year ended September 30, 2018 were \$34,753.

On September 8, 2015 the City entered into a development agreement with Endeavor Wall Homes, LLC (the "Developer"). Under the agreement the Developer is to construct single-family detached homes. The City agrees to make an incentive payment to the Developer on an annual basis for each home completed for a period of 10 years. The total incentive payment per eligible home shall equal the total appraised market value x .006 x 4 years. The incentive payment per home shall not exceed the amount of property tax paid by the applicant/homeowner to the City, as a separate taxing jurisdiction. The initial payment of the incentive shall not begin until after the home has been on the City's tax roll for one full year. No incentive payments were made to or due to the Developer during the year ended September 30, 2018.

On October 2, 2017 the City created Ferris Public Improvement District No.1 (the "District") to fund certain infrastructure improvements within the District. On March 19, 2018 the City authorized the execution of a development agreement with HSM Shaw Creek Ranch II LLC (the "Developer"). Under the agreement the Developer is to design and construct public improvements in the District. Following completion of the public improvements with funding provided by the Developer, the City shall acquire the public improvements. The City shall reimburse the Developer for budgeted public improvement construction costs in the amount of \$3,091,568 with the use of bond proceeds. As of September 30, 2018 no reimbursements were due to the Developer.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

F. Tax abatements

The City is authorized by Texas Tax Code Chapter 312 Property Redevelopment and Tax Abatement Act (Tax Abatement Act) to enter into property tax abatement agreements as an economic development tool available to cities to attract new industries and to encourage the retention and development of existing businesses through property tax exemptions or reductions. Tax abatements, which can range from twenty percent to one hundred percent of property tax on the value of the property improvement with a duration of up to ten years, may be established upon property located in reinvestment zones established by the City. The threshold criteria used for the abatement include a minimum required capital investment over \$100,000. Violations of the terms of the tax abatement agreement by the tax abatement recipient may result in the full or partial loss of the abatement and give rise to a right of the City to recoup taxes abated, provide for a delinquency date and assess penalties and interest. The City Council establishes the criteria and guidelines that govern all tax abatement agreements including the percentage amount and duration of the tax abatement, a period up to ten years. The market value of the property is reduced by the exempted amount under the agreement to arrive at the taxable value used to bill the property owner.

<u>Tax Abatement Program</u>	<u>Amount Abated</u>
Tax Abatement Act	<u>\$ 5,603</u>

The City also enters into Economic Development Agreements to promote local economic development and to stimulate business and commercial activity in the City. These agreements include provisions for repayment if the recipient fails to fully meet its commitments. The City's agreements were as follows at September 30, 2018:

On December 4, 2017, the City entered into an Economic Development Agreement with HSM Dalcon, Inc (HSM). Under the agreement, the City shall pay to HSM an amount equal to 100% of the Ad Valorem Taxes received by the City attributable to homes constructed within the property for a period of eight (8) consecutive years, commencing with Ad Valorem Taxes levied on homes built in the calendar year 2019, and ending with those imposed by the City for homes built in the calendar year 2027.

Additionally, the City shall pay to HSM an amount equal to 100% of the Ad Valorem Taxes received by the City attributable to the difference between the Base Value and the improved value of the land within the property once the infrastructure is completed for the same eight (8) year period as long as HSM has built and received a Letter of Construction Completion from the City on a minimum of 20 houses per calendar year starting January 1, 2019. If the required number of homes per year are not built, then HSM does not receive this portion of the Program Payments for that given year. No payments were due to HSM under the agreement for the year ended September 30, 2018.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

H. Long-term liabilities

Certificates of Obligation

The City issues certificates of obligation to provide fund for the acquisition and construction of major capital facilities. Certificates of obligation have been issued for governmental and business-type activities. Certificates of obligation are direct obligations and pledge the full faith and credit of the government and are further secured by and payable from a pledge of the surplus net revenues derived from the operation of the City's water and wastewater system.

Certificates of obligation currently outstanding and reported as liabilities of the City's governmental activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2011	\$ 1,500,000	3/1/2026	2.00-4.25%	<u>\$ 905,000</u>

Certificates of obligation currently outstanding and reported as liabilities of the City's business-type activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2006	\$ 850,000	3/1/2026	4.60%	<u>\$ 440,000</u>

Tax and Revenue Refunding Bonds

In a prior year, the City issued bonds in a partial refunding of certificates of obligation to reduce total future debt service payments.

Tax and revenue refunding bonds currently outstanding and reported as liabilities on the City's governmental activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2005	\$ 2,355,000	3/1/2019	3.71%	<u>\$ 265,000</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

H. Long-term liabilities (continued)

Compensated Absences -

Compensated absences represent the estimated liability for employees' paid time off benefits for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund and Water and Wastewater Fund based on the assignment of an employee at termination.

Net Pension Liability -

The net pension liability represents the liability for employees' for projected pension benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service less the amount of the pension plan's fiduciary net position.

Other Post-Employment Benefit Liability (OPEB)

The total OPEB liability represents the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB Statement No. 75.

Changes in Long-term Liabilities –

Changes in the government's long-term liabilities for the year ended September 30, 2018 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
Certificates of obligation	\$ 1,000,000	\$ -	\$ (95,000)	\$ 905,000	\$ 100,000
Tax and revenue refunding	520,000	-	(255,000)	265,000	265,000
Less deferred amounts:					
For issuance					
discount/premium	25,896	-	(2,751)	23,145	-
Total bonds payable	1,545,896	-	(352,751)	1,193,145	365,000
Compensated absences	52,445	31,380	(14,493)	69,332	69,332
Net pension liability	231,369	-	(219,936)	11,433	-
OPEB liability	80,401	17,883	-	98,284	-
Governmental activity					
Long-term liabilities	<u>\$ 1,910,111</u>	<u>\$ 49,263</u>	<u>\$ (587,180)</u>	<u>\$ 1,372,194</u>	<u>\$ 434,332</u>

Certificates of obligation and tax and revenue refunding bonds issued for governmental activity purposes are liquidated by the General fund and Debt Service fund. Governmental compensated absences, net pension liability, and OPEB liability will be liquidated by the General fund.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

H. Long-term liabilities (continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Certificates of obligation	\$ 485,000	\$ -	\$ (45,000)	\$ 440,000	\$ 45,000
Compensated absences	526	4,919	(986)	4,459	4,459
Net pension liability	26,401	-	(26,401)	-	-
OPEB liability	11,391	2,534	-	13,925	-
Business-type activity					
Long-term liabilities	<u>\$ 523,318</u>	<u>\$ 7,453</u>	<u>\$ (72,387)</u>	<u>\$ 458,384</u>	<u>\$ 49,459</u>

Certificates of obligations issued for business-type activities are repaid from those activities. Business-type compensated absences, and OPEB liability will be liquidated by the Water and Wastewater fund.

Annual debt service requirements to maturity are as follows -

Year Ending September 30	Governmental Activities			
	Certificates of Obligation		Tax and Revenue Refunding Bonds	
	Principal	Interest	Principal	Interest
2019	\$ 100,000	\$ 35,424	\$ 265,000	\$ 4,916
2020	100,000	31,424	-	-
2021	105,000	27,324	-	-
2022	110,000	23,024	-	-
2023	115,000	18,381	-	-
2024-2026	375,000	24,333	-	-
	<u>\$ 905,000</u>	<u>\$ 159,910</u>	<u>\$ 265,000</u>	<u>\$ 4,916</u>

Year Ending September 30	Business-Type Activities	
	Certificates of Obligation	
	Principal	Interest
2019	\$ 45,000	\$ 19,205
2020	50,000	17,020
2021	50,000	14,720
2022	55,000	12,305
2023	55,000	9,775
2024-2026	185,000	12,995
	<u>\$ 440,000</u>	<u>\$ 86,020</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

I. Interfund transfers

The composition of interfund transfers as of September 30, 2018 is as follows:

Interfund transfers:

	Transfer In:	
Transfer Out:	General	Total
Water and wastewater	\$ 89,149	\$ 89,149
Nonmajor governmental fund	1,636	1,636
	<u>\$ 90,785</u>	<u>\$ 90,785</u>

Transfers are primarily used to move funds from the Water and Wastewater Fund to the General Fund for administrative services.

J. Related party transactions

The significant transactions between the primary government and its component units during the year ended September 30, 2018 consisted of administrative services provided by the City in the amount of \$18,248 for the Ferris 4A Economic Development Corporation and \$18,248 for the Ferris 4B Economic Development Corporation. In addition the Ferris 4B Economic Development Corporation purchased real property from the City in the amount of \$32,320.

In addition, the City receives on-behalf payments from the Ferris 4A and 4B Economic Development Corporations to be used for the City's Economic Development Director's salary and benefits. The on-behalf payments to the City for the fiscal year ended September 30, 2018 consisted of \$39,178 from the Ferris 4A Economic Development Corporation and \$39,178 from the Ferris 4B Economic Development Corporation. Such payments are recorded as intergovernmental revenue and general government expenses/expenditures in the government-wide and general fund financial statements.

K. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor, cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

L. Subsequent events

Subsequent to year end, the City approved the following items:

- the issuance of Special Assessment Revenue Bonds, Series 2018 in the amount of \$4,125,000
- the purchase of 3 vehicles with a note payable in the amount of \$68,963.
- a contract for the construction of a water line in the amount \$393,000.
- an agreement with a Developer for reimbursement of costs associated with the design and construction of public improvements.

M. Discretely presented component units

1. Ferris 4A Economic Development Corporation Fund

Cash Deposits with Financial Institutions

At year end the bank balance of the Corporation's deposits was \$559,124. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance, \$309,124 was covered by collateral pledged in the Corporation's name. The collateral was held in the Corporation's name by the safekeeping department of the pledging bank's agent and had a fair value of approximately \$596,000.

Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 18,000	\$ 930,199	\$ -	\$ 948,199
Total capital assets not being depreciated	18,000	930,199	-	948,199
Capital assets being depreciated:				
Machinery and equipment	1,483	-	-	1,483
Totals capital assets being depreciated	1,483	-	-	1,483
Less accumulated depreciation for:				
Machinery and equipment	(124)	(296)	-	(420)
Total accumulated depreciation	(124)	(296)	-	(420)
Total capital assets, being depreciated, net	1,359	(296)	-	1,063
Governmental activities capital assets, net	<u>\$ 19,359</u>	<u>\$ 929,903</u>	<u>\$ -</u>	<u>\$ 949,262</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

M. Discretely presented component units (continued)

Note Payable

The Corporation entered into a note payable dated October 4, 2017 in the amount of \$768,625 for the purchase of real property. Payments on the note consist of quarterly payments of \$15,902 at 5.50% fixed for 20 years.

Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes payable	\$ -	\$ 768,625	\$ (16,220)	\$ 752,405	\$ 22,687
	<u>\$ -</u>	<u>\$ 768,625</u>	<u>\$ (16,220)</u>	<u>\$ 752,405</u>	<u>\$ 22,687</u>

Year Ending September 30	Notes Payable	
	Principal	Interest
2019	\$ 22,687	\$ 40,920
2020	23,960	39,646
2021	25,306	38,301
2022	26,726	36,880
2023	28,230	35,379
2024-2028	166,763	151,269
2029-2033	219,138	98,894
2034-2038	239,595	30,729
	<u>\$ 752,405</u>	<u>\$ 472,018</u>

Subsequent Events

- Subsequent to year end the Corporation entered into land conveyance agreement with MJ Crocker Company, LLC.
- Subsequent to year end the Corporation entered into a project management contract with MJ Crocker Company, LLC in an amount not to exceed \$52,000.

2. Ferris 4B Economic Development Corporation Fund

Cash Deposits with Financial Institutions

At year end the bank balance of the Corporation's deposits was \$292,576. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance, \$42,576 was covered by collateral pledged in the Corporation's name. The collateral was held in the Corporation's name by the safekeeping department of the pledging bank's agent and had a fair value of approximately \$54,000.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

M. Discretely presented component units (continued)

Subsequent Events

- Subsequent to year end the Corporation approved expenditures in the amount of \$450,000 for a senior citizens center.

N. Prior period adjustment

The implementation of GASB Statement No. 75 discussed in note 1. H. resulted in a restatement of beginning net position for the governmental activities and business-type activities in the government-wide financial statements and to the beginning net position in the fund financial statements. Prospectively applying this change results in the adjustments below.

	Government-wide Financial Statements		Fund Financial Statements
	Governmental	Business-type	Utility
As previously reported, October 1, 2017	\$ 7,427,438	\$ 2,644,810	\$ 2,644,810
Deferral for OPEB contributions made after the measurement date	1,781	252	252
Recording of total OPEB liability as of September 30, 2017	(80,401)	(11,392)	(11,392)
Restated, October 1, 2017	<u>\$ 7,348,818</u>	<u>\$ 2,633,670</u>	<u>\$ 2,633,670</u>
Effect of restatement on operations for the year ended September 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS

1. Texas Municipal Retirement System

A. Plan description

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

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

B. Benefits provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

1. Texas Municipal Retirement System (continued)

	Plan Provisions
Employee deposit rate	5%
Municipal current matching ratio	1.5 - 1
Updated service credits:	
Rate (%)	100 T
Year effective	2000R
Increase benefits to retirees:	
Rate (%) ⁽¹⁾	70
Year effective	2000R
Vesting	5 yrs
Service retirement eligibilities	5 yrs/age 60, 20 yrs/any age
Restricted prior service credit effective date	8-01
Supplemental death benefits:	
Employees	Yes
Retirees	Yes
Statutory maximum (%)	9.5%

⁽¹⁾ For years prior to 1982, the rate is the actual percentage in annuities. For 1982 and later, the rate is the percentage of the change in the CPI-U since retirement date, granted to each annuitant as an increase of the original annuity.

T — Includes Transfer Credits.

R — Annually Repeating. Ordinance automatically renews effective January 1 of each successive year.

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	28
Inactive employees entitled to but not yet receiving benefits	54
Active employees	39
	<hr/> 121

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

1. Texas Municipal Retirement System (continued)

C. Contributions

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

Employees for the City of Ferris, Texas were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Ferris, Texas were 6.31% and 5.87% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$99,458, and were equal to the required contributions.

D. Net pension liability (asset)

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
Overall payroll growth	3.5% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

1. Texas Municipal Retirement System (continued)

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100%	

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

1. Texas Municipal Retirement System (continued)

Discount Rate

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

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 12/31/2016	\$ 3,554,144	\$ 3,326,667	\$ 227,477
Changes for the year:			
Service cost	164,523	-	164,523
Interest	236,803	-	236,803
Difference between expected and actual experience	(28,575)	-	(28,575)
Contributions - employer	-	101,177	(101,177)
Contributions - employee	-	79,633	(79,633)
Net investment income	-	461,079	(461,079)
Benefit payments, including refunds of employee contributions	(256,416)	(256,416)	-
Administrative expense	-	(2,386)	2,386
Other changes	-	(121)	121
Net Changes	\$ 116,335	\$ 382,966	\$ (266,631)
Balance at 12/31/2017	\$ 3,670,479	\$ 3,709,633	\$ (39,154)

Sensitivity of the net pension liability (asset) 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:

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

1. Texas Municipal Retirement System (continued)

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 491,031	\$ (39,154)	\$ (466,000)

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. The effect of TMRS on the City's net position has been determined on the same basis used by TMRS.

Payables to the Pension Plan - Legally required contributions outstanding at the end of the year totaled \$7,695.

E. 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 \$34,323.

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

	Governmental Activities	Business-type Activities
	Deferred Outflow of Resources	Deferred Inflow of Resources
Contributions subsequent to the measurement date	\$ 65,204	\$ 9,242
Changes in actuarial assumptions	3,970	482
Difference between projected and actual investment earnings	-	81,548
Differences between expected and actual economic experience	-	67,852
Total	\$ 69,174	\$ 149,400

\$74,446 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

1. Texas Municipal Retirement System (continued)

<u>Year Ended December 31</u>	
2018	\$ (45,547)
2019	(26,942)
2020	(47,355)
2021	(47,306)
Total	<u>\$ (167,150)</u>

2. Texas Emergency Services Retirement System

A. Plan Description and Benefits Provided

The City of Ferris, Texas is a nonemployer contributing entity in the Texas Emergency Services Retirement System (TESRS) for its volunteer firefighters. TESRS administers a cost-sharing multiple employer pension system (the 'System') established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is an agency of the State of Texas and its financial records comply with state statutes and regulations. The nine members Board of Trustees, appointed by the Governor, establishes policy for the administration of the Texas Emergency Services Retirement System.

The TESRS was created as a standalone agency by the 83rd Legislature via the passage of SB 220, effective September 1, 2013, to assume the related functions of the abolished Office of the Fire Fighters' Pension Commissioner. While the agency is new, the System has been in existence since 1977. TESRS, which is under the authority of Title 8, Subtitle H, Chapters 861-865 of the Texas Government Code, provides death and disability benefits to active volunteer fire fighters and first responders, and a pension to members with vested service, as well as to their survivor/beneficiaries. For financial reporting purposes, the State of Texas is considered the primary reporting government. TESRS' financial statements are included in the State's Comprehensive Annual Financial Report. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations which may be of interest are also available at the same link.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

2. Texas Emergency Services Retirement System (continued)

B. Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. No contributions are required from the individuals who are members of the System, nor are they allowed. The City is required to make contributions for each month a member performs emergency services for a department. The State of Texas is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year. For the fiscal year ending September 30, 2018, total contributions to the plan were \$5,170.

C. Net Pension Liability

At September 30, 2018, the City reported a liability of \$11,433 for its proportionate share of the net pension liability. The net pension liability was measured as of August 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions to the pension plan for the fiscal year ended August 31, 2017 relative to the contributions of all participating entities. At August 31, 2017, the City's proportion was 0.048.

D. 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 (\$15,164).

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

	Deferred Outflow of Resources
Contributions subsequent to the measurement date	\$ 5,170
Changes in actuarial assumptions	520
Difference between projected and actual investment earnings	5,623
Differences between expected and actual economic experience	36
Total	<u>\$ 11,349</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

2. Texas Emergency Services Retirement System (continued)

\$5,170 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset for the year ending 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>Year Ended December 31</u>		
2018	\$	1,849
2019		2,557
2020		1,535
2021		238
Total	\$	<u>6,179</u>

NOTE 4 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS

A. Plan description

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e. , no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single-employer, defined benefit OPEB plan. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

B. Benefits provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500.

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

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 4 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS (continued)

C. Employees covered by benefit terms

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

Inactive employees currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	4
Active employees	39
	<hr/> 63

D. Total OPEB liability

The City's total OPEB liability of \$112,209 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.50%, 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.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 4 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS (continued)

D. Total OPEB liability (continued)

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.

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

	Total OPEB Liability
Balance at 12/31/2016	\$ 91,793
Changes for the year:	
Service cost	9,875
Interest	3,638
Changes in assumptions or other inputs	7,859
Benefit payments**	(956)
Net Changes	\$ 20,416
Balance at 12/31/2017	\$ 112,209

** Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Sensitivity of the total OPEB liability to changes in the discount rate -

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

	1% Decrease (2.31%)	Current Discount Rate (3.31%)	1% Increase (4.31%)
Total OPEB liability	\$ 132,037	\$ 112,209	\$ 96,504

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE 4 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS (continued)

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$16,846. At September 30, 2018, the City reported deferred outflows of resources and related to OPEB from the following sources:

	Governmental Activities	Business-Type Activities
	Deferred Outflows of	Deferred Outflows of
	Resources	Resources
Changes of assumptions	\$ 5,499	\$ 779
City contributions subsequent to the measurement date	2,111	299
Total	<u>\$ 7,610</u>	<u>\$ 1,078</u>

\$2,410 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2018. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31</u>	
2018	\$ 1,581
2019	1,581
2020	1,581
2021	1,535
Total	<u>\$ 6,278</u>

REQUIRED SUPPLEMENTARY INFORMATION

These supplementary schedules are included to supplement the basic financial statements as required by the Governmental Accounting Standards Board.

CITY OF FERRIS, TEXAS
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2018

	Budget Amounts		Actual	Adjustments	Actual	Variance with
	Original	Final	GAAP	Budget	Budget	Final Budget
			Basis	Basis	Basis	
REVENUES						
Property taxes	\$ 568,208	\$ 568,208	\$ 588,644	\$ (144)	\$ 588,500	\$ 20,292
Sales taxes	230,000	230,000	282,070	(9,578)	272,492	42,492
Franchise taxes	120,000	120,000	127,920	48	127,968	7,968
Alcoholic beverage taxes	1,200	1,200	1,708	(128)	1,580	380
Licenses and permits	68,200	68,200	69,664	-	69,664	1,464
Fines and forfeitures	428,800	428,800	371,646	-	371,646	(57,154)
Host fee	1,400,000	1,400,000	1,492,125	12,649	1,504,774	104,774
Gas royalty	-	-	38,358	(38,358)	-	-
Revenues from use of money and property	4,800	4,800	7,089	(467)	6,622	1,822
Other	44,300	44,300	50,304	-	50,304	6,004
Intergovernmental	109,997	110,490	116,346	-	116,346	5,856
Contributions and donations	10,600	147,208	224,574	-	224,574	77,366
Total revenues	2,986,105	3,123,206	3,370,448	(35,978)	3,334,470	211,264
EXPENDITURES						
Current:						
General government:						
City council	125,264	267,098	249,207	(2,477)	246,730	(20,368)
City manager	289,132	289,132	266,310	424	266,734	(22,398)
Municipal finance	181,770	181,770	183,612	506	184,118	2,348
Senior services	23,273	23,273	21,840	38	21,878	(1,395)
Information technology	237,835	237,835	236,344	164	236,508	(1,327)
Economic development	96,368	96,368	106,914	1,563	108,477	12,109
Total general government	953,642	1,095,476	1,064,227	218	1,064,445	(31,031)
Public safety:						
Code compliance	78,639	78,639	82,770	63	82,833	4,194
Fire	443,644	446,593	424,337	(921)	423,416	(23,177)
EMS	42,940	42,940	43,668	-	43,668	728
Police	1,001,176	1,166,321	1,179,003	1,358	1,180,361	14,040
Municipal court	134,740	134,740	130,392	1,106	131,498	(3,242)
Animal control	62,632	62,632	41,765	1,053	42,818	(19,814)
Total public safety	1,763,771	1,931,865	1,901,935	2,659	1,904,594	(27,271)
Cultural and recreational:						
Parks	69,350	69,350	58,366	-	58,366	(10,984)
Library	246,690	246,690	183,950	248	184,198	(62,492)
Total cultural and recreational	316,040	316,040	242,316	248	242,564	(73,476)
Public works						
Streets and drainage	455,214	468,939	457,922	750	458,672	(10,267)
Total public works	455,214	468,939	457,922	750	458,672	(10,267)
Debt service:						
Principal and interest charges	-	-	95,000	(95,000)	-	-
Interest and fiscal charges	-	-	39,206	(39,206)	-	-
Total debt service	-	-	134,206	(134,206)	-	-
Total expenditures	3,488,667	3,812,320	3,800,606	(130,331)	3,670,275	(142,045)
Excess (deficiency) of revenues over (under) expenditures	(502,562)	(689,114)	(430,158)	94,353	(335,805)	353,309
OTHER FINANCING SOURCES (USES)						
Transfers in	90,785	90,785	90,785	-	90,785	-
Insurance proceeds	-	-	3,465	-	3,465	3,465
Proceeds from the sale of capital assets	122,000	122,000	88,219	-	88,219	(33,781)
Total other financing sources and uses	212,785	212,785	182,469	-	182,469	(30,316)
Net change in fund balance	\$ (289,777)	\$ (476,329)	\$ (247,689)	\$ 94,353	\$ (153,336)	\$ 322,993

NOTES TO BUDGETARY INFORMATION

1. Budgetary basis of accounting

An annual budget for the general fund is adopted on the budgetary basis of accounting. All annual appropriations lapse at fiscal year end. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

CITY OF FERRIS, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
Last 10 Years (will ultimately be displayed)

	2014	2015	2016	2017
Total Pension Liability				
Service Cost	\$ 157,389	\$ 180,871	\$ 170,877	\$ 164,523
Interest (on the Total Pension Liability)	224,607	232,113	230,569	236,803
Difference between expected and actual experience	(70,569)	(124,273)	(86,304)	(28,575)
Changes of assumptions	-	27,891	-	-
Benefit payments, including refunds of employee contributions	(191,312)	(240,556)	(182,787)	(256,416)
Net Change in Total Pension Liability	120,115	76,046	132,355	116,335
Total Pension Liability - Beginning	3,225,628	3,345,743	3,421,789	3,554,144
Total Pension Liability - Ending (a)	<u>\$ 3,345,743</u>	<u>\$ 3,421,789</u>	<u>\$ 3,554,144</u>	<u>\$ 3,670,479</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 83,861	\$ 101,254	\$ 107,196	\$ 101,177
Contributions - Employee	81,736	84,519	81,061	79,633
Net Investment Income	172,835	4,672	210,393	461,079
Benefit payments, including refunds of employee contributions	(191,312)	(240,556)	(182,787)	(256,416)
Administrative Expense	(1,804)	(2,846)	(2,376)	(2,386)
Other	(148)	(141)	(128)	(121)
Net Change in Plan Fiduciary Net Position	145,168	(53,098)	213,359	382,966
Plan Fiduciary Net Position - Beginning	3,021,238	3,166,406	3,113,308	3,326,667
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,166,406</u>	<u>\$ 3,113,308</u>	<u>\$ 3,326,667</u>	<u>\$ 3,709,633</u>
Net Pension Liability - Ending (a) - (b)	\$ 179,337	\$ 308,481	\$ 227,477	\$ (39,154)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	94.64%	90.98%	93.60%	101.07%
Covered Payroll	1,634,722	1,690,384	1,621,223	1,592,670
Net Pension Liability as a Percentage of Covered Payroll	10.97%	18.25%	14.03%	(2.46%)

Notes to Schedule:

N/A

CITY OF FERRIS, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
Last 10 Fiscal Years (will ultimately be displayed)

	2015	2016	2017	2018
Actuarially Determined Contribution	\$ 98,220	\$ 110,315	\$ 99,017	\$ 99,458
Contributions in relation to the actuarially determined contribution	98,220	110,315	99,017	99,458
Contribution deficiency (excess)	-	-	-	-
Covered payroll	1,705,659	1,708,629	1,551,748	1,664,637
Contributions as a percentage of covered employee payroll	5.76%	6.46%	6.38%	5.97%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes There were no benefit changes during the year.

CITY OF FERRIS, TEXAS
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
AS NONEMPLOYER CONTRIBUTING ENTITY
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
Last 10 Years (will ultimately be displayed)

	2014	2015	2016	2017
City's proportion of the net pension liability	0.062%	0.104%	0.104%	0.048%
City's proportionate share of the net pension liability	\$ 11,266	\$ 27,761	\$ 30,293	\$ 11,433
Plan fiduciary net position as a percentage of the total pension liability	83.46%	65.99%	66.16%	81.41%

Notes to Schedule:

N/A

CITY OF FERRIS, TEXAS

**SCHEDULE OF THE CITY'S CONTRIBUTIONS - AS NONEMPLOYER CONTRIBUTING ENTITY
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM**

Last 10 Fiscal Years (will ultimately be displayed)

	2015	2016	2017	2018
Statutorily required contribution	\$ 3,420	\$ 9,237	\$ 3,093	\$ 5,170
Contributions in relation to the statutorily required contribution	3,420	9,237	3,093	5,170
Contribution deficiency (excess)	-	-	-	-

Notes to Schedule:

N/A

CITY OF FERRIS, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Calendar Years (will ultimately be displayed)

	2017
Total OPEB liability	
Service Cost	\$ 9,875
Interest (on the Total Pension Liability)	3,638
Changes of assumptions	7,859
Benefit payments, including refunds of employee contributions	(956)
Net Change in Total OPEB Liability	<u>20,416</u>
Total OPEB Liability - Beginning	<u>91,793</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 112,209</u></u>
 Covered Payroll	 1,592,670
 Total OPEB Liability as a Percentage of Covered Payroll	 7.05%

Notes to Schedule:

Note1 - No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

Note2 - The actuarial assumption and other inputs used to calculate the total OPEB liability are described in note 4.D to the financial statements.

Note3 - Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to be used for specified purposes.

Court Technology Fund – This fund is used to account for revenues that are to be used for technological enhancements to the municipal court.

Court Security Fund – This fund is used to account for the revenues to provide security services for buildings housing a municipal court.

DEBT SERVICE FUND - The debt service fund is used to account for the accumulation of resources for the payment of principal and interest on general long-term debt.

CITY OF FERRIS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2018

	Nonmajor Special Revenue	Nonmajor Debt Service	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 40,977	\$ 58,462	\$ 99,439
Total assets	<u>\$ 40,977</u>	<u>\$ 58,462</u>	<u>\$ 99,439</u>
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES			
Restricted:			
Debt service	-	58,462	58,462
Public safety	40,977	-	40,977
Total fund balance	<u>40,977</u>	<u>58,462</u>	<u>99,439</u>
Total liabilities and fund balances	<u>\$ 40,977</u>	<u>\$ 58,462</u>	<u>\$ 99,439</u>

CITY OF FERRIS, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2018

	Nonmajor Special Revenue	Nonmajor Debt Service	Total Nonmajor Governmental Funds
REVENUES			
Property taxes	\$ -	\$ 281,006	\$ 281,006
Fines and forfeitures	15,860	-	15,860
Revenues from use of money	36	140	176
Total revenues	<u>15,896</u>	<u>281,146</u>	<u>297,042</u>
EXPENDITURES			
Current:			
Public safety	9,709	-	9,709
Debt service:			
Principal retirement	-	255,000	255,000
Interest and fiscal charges	-	14,562	14,562
Total expenditures	<u>9,709</u>	<u>269,562</u>	<u>279,271</u>
Excess (deficiency) of revenues revenues over (under) expenditures	<u>6,187</u>	<u>11,584</u>	<u>17,771</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(1,636)</u>	-	<u>(1,636)</u>
Total other financing sources (uses)	<u>(1,636)</u>	<u>-</u>	<u>(1,636)</u>
Net change in fund balances	4,551	11,584	16,135
Fund balances - beginning	<u>36,426</u>	<u>46,878</u>	<u>83,304</u>
Fund balances - ending	<u><u>\$ 40,977</u></u>	<u><u>\$ 58,462</u></u>	<u><u>\$ 99,439</u></u>

CITY OF FERRIS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2018

	<u>Court Technology</u>	<u>Court Security</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 15,470	\$ 25,507	\$ 40,977
Total assets	<u>\$ 15,470</u>	<u>\$ 25,507</u>	<u>\$ 40,977</u>
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES			
Restricted:			
Public safety	<u>15,470</u>	<u>25,507</u>	<u>40,977</u>
Total fund balance	<u>15,470</u>	<u>25,507</u>	<u>40,977</u>
Total liabilities and fund balances	<u>\$ 15,470</u>	<u>\$ 25,507</u>	<u>\$ 40,977</u>

CITY OF FERRIS, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended September 30, 2018

	Court Technology	Court Security	Totals
REVENUES			
Fines and forfeitures	\$ 9,065	\$ 6,795	\$ 15,860
Revenues from use of money	25	11	36
Total revenues	<u>9,090</u>	<u>6,806</u>	<u>15,896</u>
EXPENDITURES			
Current:			
Public safety	9,709	-	9,709
Total expenditures	<u>9,709</u>	<u>-</u>	<u>9,709</u>
Excess (deficiency) of revenues over expenditures	<u>(619)</u>	<u>6,806</u>	<u>6,187</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	-	(1,636)	(1,636)
Total other financing sources (uses)	<u>-</u>	<u>(1,636)</u>	<u>(1,636)</u>
Net change in fund balances	(619)	5,170	4,551
Fund balances - beginning	<u>16,089</u>	<u>20,337</u>	<u>36,426</u>
Fund balances - ending	<u><u>\$ 15,470</u></u>	<u><u>\$ 25,507</u></u>	<u><u>\$ 40,977</u></u>

CITY OF FERRIS, TEXAS
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Fiscal Year Ended September 30, 2018

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES			
Property taxes	\$ 269,562	\$ 281,006	\$ 11,444
Revenues from use of money	-	140	140
Total revenues	<u>269,562</u>	<u>281,146</u>	<u>11,584</u>
EXPENDITURES			
Debt service:			
Principal on bonds	255,000	255,000	-
Interest and fiscal charges	<u>14,562</u>	<u>14,562</u>	<u>-</u>
Total expenditures	<u>269,562</u>	<u>269,562</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 11,584</u>	<u>\$ 11,584</u>

PROPRIETARY FUND

ENTERPRISE FUNDS - Enterprise funds account for services provided primarily to customers outside the financial reporting entity.

Water and Wastewater Fund - The City's water and wastewater utility operations are accounted for in this fund.

CITY OF FERRIS, TEXAS
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
ENTERPRISE FUND - WATER AND WASTEWATER
For the Fiscal Year Ended September 30, 2018

	Budget Amounts		Actual	Adjustments	Actual	Variance with
	Original	Final	GAAP	Budget	Budget	Final Budget
			Basis	Basis	Basis	
OPERATING REVENUES						
Water sales	\$ 665,295	\$ 665,295	\$ 690,379	\$ 9,569	\$ 699,948	\$ 34,653
Wastewater service	498,545	498,545	584,840	9,010	593,850	95,305
Miscellaneous	142,866	142,866	132,152	-	132,152	(10,714)
Total operating revenues	<u>\$1,306,724</u>	<u>\$1,306,724</u>	<u>\$1,407,371</u>	<u>\$ 18,579</u>	<u>\$1,425,950</u>	<u>\$ 119,226</u>
OPERATING EXPENSES						
Water and wastewater operations	\$ 1,411,482	\$ 1,486,125	\$ 1,102,955	\$ 123,719	\$ 1,226,674	\$ (259,451)
Depreciation and amortization	-	-	182,849	(182,849)	-	-
Total operating expenses	<u>\$ 1,411,482</u>	<u>\$ 1,486,125</u>	<u>\$ 1,285,804</u>	<u>\$ (59,130)</u>	<u>\$ 1,226,674</u>	<u>\$ (259,451)</u>

COMPONENT UNIT FINANCIAL STATEMENTS

Ferris 4A Economic Development Corporation Fund - This fund is used to account for the Ferris Economic Development Corporation created under Section 4A of the Development Corporation Act of 1979, as amended, Article 5190.6, Vernon's Texas civil statutes, as amended.

Ferris 4B Economic Development Corporation Fund - This fund is used to account for the Ferris Economic Development Corporation created under Section 4B of the Development Corporation Act of 1979, as amended, Article 5190.6, Vernon's Texas civil statutes, as amended.

CITY OF FERRIS, TEXAS
BALANCE SHEET - GENERAL FUND
COMPONENT UNITS
September 30, 2018

	Ferris 4A Economic Development Corporation	Ferris 4B Economic Development Corporation
ASSETS		
Cash and cash equivalents	\$ 491,616	\$ 288,675
Due from primary government	28,535	28,535
Restricted cash - debt service	63,606	-
Total assets	<u>\$ 583,757</u>	<u>\$ 317,210</u>
LIABILITIES		
Accounts payable	\$ 8,992	\$ -
Total liabilities	<u>8,992</u>	<u>-</u>
FUND BALANCES		
Restricted:		
Debt service	63,606	-
Economic development	511,159	317,210
Total fund balances	<u>574,765</u>	<u>317,210</u>
Total liabilities and fund balances	<u>\$ 583,757</u>	<u>\$ 317,210</u>

CITY OF FERRIS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GENERAL FUND
COMPONENT UNITS
For the Fiscal Year Ended September 30, 2018

	Ferris 4A Economic Development Corporation	Ferris 4B Economic Development Corporation
REVENUES		
Sales taxes	\$ 141,035	\$ 141,035
Revenues from use of money	1,290	474
Other	400	400
Total revenues	<u>142,725</u>	<u>141,909</u>
EXPENDITURES		
Current:		
Economic development	1,000,687	\$ 99,884
Debt Service:		
Principal retirement	16,220	-
Interest and fiscal charges	31,485	-
Total expenditures	<u>1,048,392</u>	<u>99,884</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(905,667)</u>	<u>42,025</u>
OTHER FINANCING SOURCES (USES)		
Note proceeds	768,625	-
Sale of capital assets	-	32,320
Total other financing sources (uses)	<u>768,625</u>	<u>32,320</u>
Net change in fund balances	(137,042)	74,345
Fund balances - beginning	<u>711,807</u>	<u>242,865</u>
Fund balances - ending	<u><u>\$ 574,765</u></u>	<u><u>\$ 317,210</u></u>

SUPPLEMENTARY FINANCIAL DATA

CITY OF FERRIS, TEXAS
SCHEDULE OF CASH BALANCES - ALL FUNDS
September 30, 2018

GENERAL FUND

Cash on hand	\$	700	
Cash in bank - Operating		768,145	
- Court Restricted		7,996	
- Court State Fees		46,902	
- Police Awarded Funds		7,724	
- National Night Out		3,991	
- WMI Meth Electric Funds		196,261	
- Deep Reserve General		<u>132,760</u>	\$ 1,164,479

SPECIAL REVENUE FUNDS

Cash in bank - Court Technology	15,470	
- Court Security	<u>25,507</u>	<u>40,977</u>

DEBT SERVICE FUND

Cash in bank - Interest and Sinking Funds		<u>58,462</u>
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ENTERPRISE FUND - WATER AND WASTEWATER

Cash on hand	200	
Cash in bank - Operating	491,716	
- Deep Reserve - Water and Wastewater	<u>130,853</u>	<u>622,769</u>
		<u>\$ 1,886,687</u>

CITY OF FERRIS, TEXAS
COMBINED SCHEDULE OF BONDED DEBT - ALL FUNDS
For the Fiscal Year Ended September 30, 2018

	Original Amount	Balance Outstanding 10/1/2017	Bonds Issued	Retired	Balance Outstanding 9/30/2018	Interest Rate
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION						
Series 2006	\$ 850,000	\$ 485,000	\$ -	\$ 45,000	\$ 440,000	4.60%
Series 2011	1,500,000	1,000,000	-	95,000	905,000	2-00%-4.25%
Total Certificates of Obligation		<u>\$ 1,485,000</u>	<u>\$ -</u>	<u>\$ 140,000</u>	<u>\$ 1,345,000</u>	
TAX AND REVENUE REFUNDING BONDS						
Series 2005	\$ 2,355,000	\$ 520,000	\$ -	\$ 255,000	\$ 265,000	3.71%
Total Tax and Revenue Refunding Bonds		<u>\$ 520,000</u>	<u>\$ -</u>	<u>\$ 255,000</u>	<u>\$ 265,000</u>	
TOTAL COMBINED BONDED DEBT		<u>\$ 2,005,000</u>	<u>\$ -</u>	<u>\$ 395,000</u>	<u>\$ 1,610,000</u>	

CITY OF FERRIS, TEXAS
DEBT REQUIREMENTS
October 1, 2018 to Maturity

Issue: Combination Tax and Revenue Certificates of Obligation
Date: March 1, 2006
Original Amount: \$850,000
Denomination: \$5,000
Interest: 4.60%
Payable from: Ad Valorem Taxes and Water and Wastewater Revenues

Fiscal Year Ending 9/30	Principal Due 3/1	Interest Due 3/1	Interest Due 9/1	Totals
2019	\$ 45,000	\$ 10,120	\$ 9,085	\$ 64,205
2020	50,000	9,085	7,935	67,020
2021	50,000	7,935	6,785	64,720
2022	55,000	6,785	5,520	67,305
2023	55,000	5,520	4,255	64,775
2024	60,000	4,255	2,875	67,130
2025	60,000	2,875	1,495	64,370
2026	65,000	1,495	-	66,495
	<u>\$ 440,000</u>	<u>\$ 48,070</u>	<u>\$ 37,950</u>	<u>\$ 526,020</u>
Average Annual Requirements		<u>\$ 65,753</u>		

CITY OF FERRIS, TEXAS
DEBT REQUIREMENTS
October 1, 2018 to Maturity

Issue: Tax and Waterworks and Sewer System Revenue Refunding Bonds
Date: September 1, 2005
Original Amount: \$2,355,000
Denomination: \$5,000
Interest: 3.71%
Payable from: Ad Valorem Taxes and Water and Wastewater Revenues

Fiscal Year Ending 9/30	Principal Due 3/1	Interest Due 3/1	Interest Due 9/1	Totals
2019	\$ 265,000	\$ 4,916	\$ -	\$ 269,916
	<u>\$ 265,000</u>	<u>\$ 4,916</u>	<u>\$ -</u>	<u>\$ 269,916</u>
Average Annual Requirements		<u>\$ 269,916</u>		

CITY OF FERRIS, TEXAS
DEBT REQUIREMENTS
October 1, 2018 to Maturity

Issue: Tax and Waterworks and Sewer System Revenue Certificates of Obligation
Date: March 15, 2011
Original Amount: \$1,500,000
Denomination: \$5,000
Interest: 2-00% - 4.25%
Payable from: Ad Valorem Taxes and Water and Wastewater Revenues

Fiscal Year Ending 9/30	Principal Due 3/1	Interest Due 3/1	Interest Due 9/1	Totals
2019	\$ 100,000	\$ 18,712	\$ 16,712	\$ 135,424
2020	100,000	16,712	14,712	131,424
2021	105,000	14,712	12,612	132,324
2022	110,000	12,612	10,412	133,024
2023	115,000	10,412	7,969	133,381
2024	120,000	7,969	5,419	133,388
2025	125,000	5,419	2,763	133,182
2026	130,000	2,763	-	132,763
	<u>\$ 905,000</u>	<u>\$ 89,311</u>	<u>\$ 70,599</u>	<u>\$ 1,064,910</u>
Average Annual Requirements		<u>\$ 133,114</u>		