



ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2017

CITY OF GRAHAM, TEXAS
Year Ended September 30, 2017
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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council of the
City of Graham, 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 unit, each major fund, and the aggregate remaining fund information of the City of Graham, Texas (the City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Restatement of Prior Period Net Position

As discussed in Note 14 to the financial statements, it has been determined that net position was understated related to cash, accounts receivable, and capital leases which has resulted in a restatement of beginning net position. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, general fund budgetary comparison information, Schedule of Funding Progress (OPEB Plan), Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Employer Contributions on pages 3-10 and 44-49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements (including the budgetary comparison schedules), are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements (including the budgetary comparison schedules) 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 nonmajor fund financial statements (including the budgetary comparison schedules) are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Abilene, Texas
October 2, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Graham's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2017. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's total net position was \$18,737,927 at September 30, 2017. Of this amount, the City has a deficit of \$2,079,141 (unrestricted net position).
- During the year, the City's expenses were \$1,729,139 greater than the \$13,595,250 generated in taxes and other revenues for governmental programs and business-type activities.
- The general fund reported a deficit fund balance this year of \$1,879,089.

Overview of the Financial Statements

This annual report consists of three parts-management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The Management's Discussion and Analysis, Basic Financial Statements, and Required Supplementary Information are the three main components of the City's financial statements. The basic financial statements include the government-wide financial statements, fund financial statements and the notes to the financial statements.

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position - the difference between the City's assets and liabilities- is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

In the Statement of Net Position and the Statement of Activities there is the following kind of activity:

- *Governmental Activities* - These are distinct functions of the City that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City include the finance and administration, police, fire department, streets, refuse disposal, airport, library, parks and recreation, cemetery, and other services. Property taxes, franchise taxes, and state and federal grants finance most of these activities.
- *Business-type Activities* - These amounts include the water, water supply district, and sewer department activities of the City.
- *Component Units* - The Graham Economic Improvement Corporation, although legally separate, function for all practical purposes as departments of the City.

FUND FINANCIAL STATEMENTS

The fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds – not the City as a whole. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For instance, laws and contracts require the City to establish some funds, such as the Debt Service Fund. The City's administration establishes many other funds to help it control and manage money for particular purposes (like the Main Street Fund and Library Fund).

The City has the following kinds of funds:

- *Governmental Funds* - Most of the City's basic services are included in governmental funds, which use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- *Proprietary Funds* - These funds are used to account for the City's ongoing organizations and activities that are similar to those often found in the private sector. The generally accepted accounting principles here are those applicable to similar businesses in the private sector, and the measurement focus is based upon determination of net income, financial position, and cash flows.

Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements and therefore established to finance and account for the acquisition, operation, and maintenance of the City facilities and services that are entirely or predominantly self-supporting by user charges. The City maintains three enterprise funds, which include the sewer, water, and water plant reserve funds.

The sewer fund accounts for revenues and expenses of the operations and maintenance of the sewer system of the City, while the water fund accounts for revenues and expenses of the operation and maintenance of the water system of the City. The Water Plan Reserve Fund is the blended component unit that is an entity legally separate from the City. It is blended with the enterprise fund and reported as part of the City's operations because its purpose is to account for the investments and interest earned in order to fund the construction of the City's water treatment plant.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position of the City's governmental and business-type activities decreased by \$1,729,139. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was a deficit balance of \$2,079,141 at September 30, 2017.

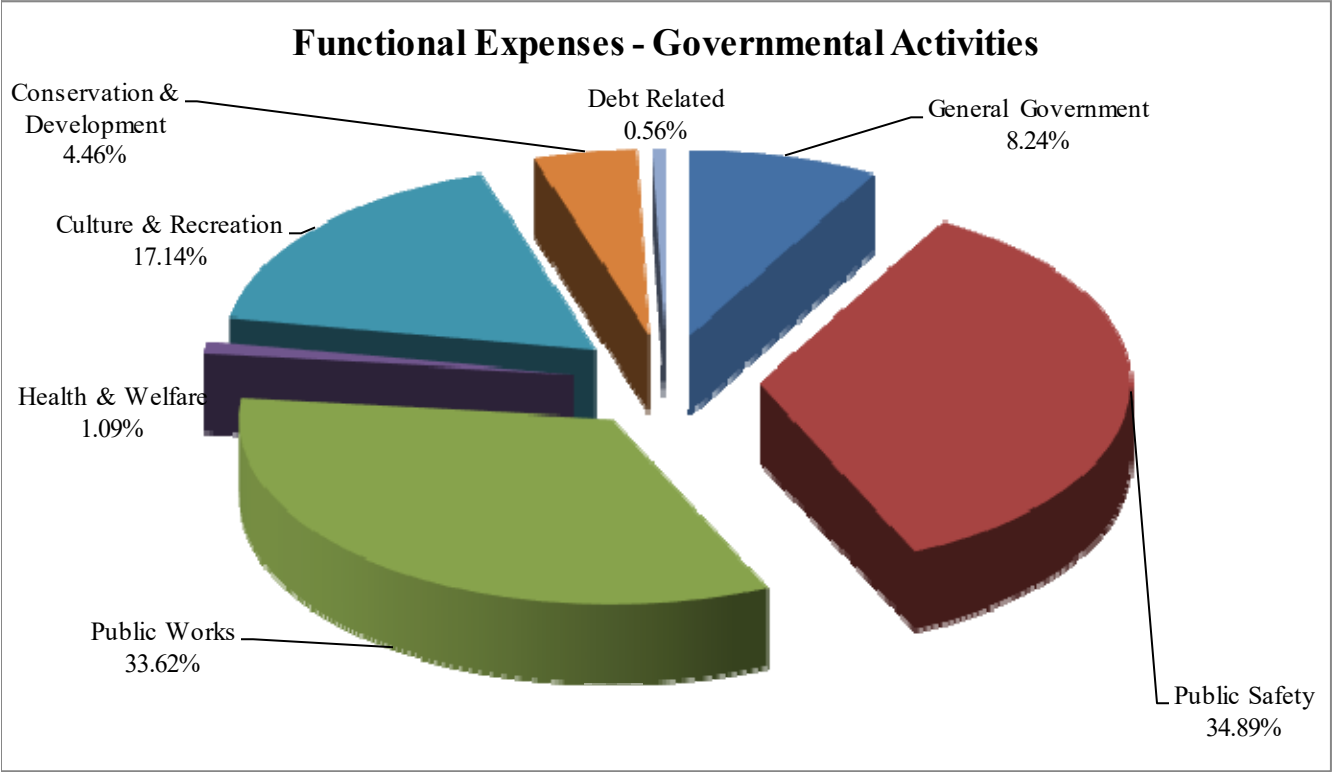
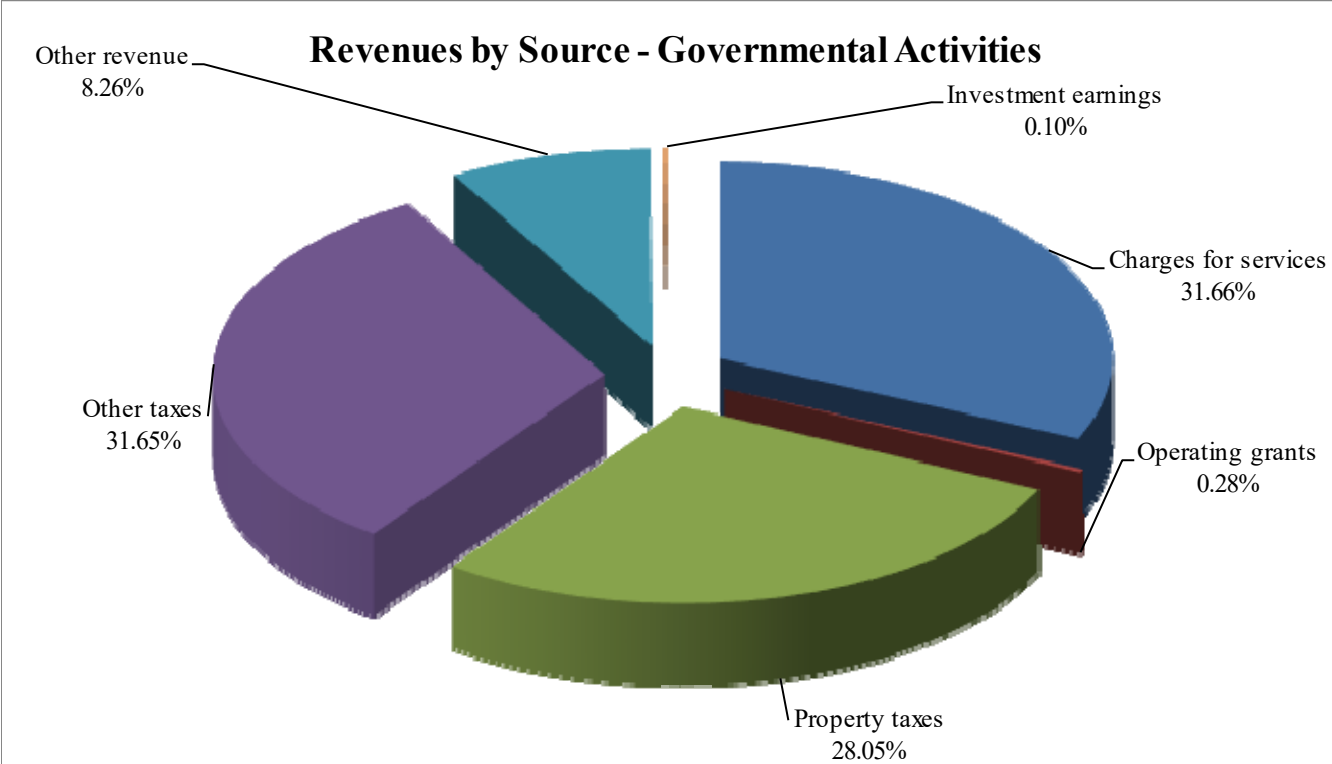
Net Position – Comparative September 30, 2017 and September 30, 2016

	Governmental Activities		Business-type Activities		Total	
	Restated		Restated		Restated	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 194,155	\$ 1,235,421	\$ 5,687,164	\$ 6,503,785	\$ 5,881,319	\$ 7,739,206
Capital assets, net	11,541,398	12,439,323	22,331,807	22,271,820	33,873,205	34,711,143
Total assets	<u>11,735,553</u>	<u>13,674,744</u>	<u>28,018,971</u>	<u>28,775,605</u>	<u>39,754,524</u>	<u>42,450,349</u>
Deferred outflows						
Debt refunding	6,819	8,524	-	-	6,819	8,524
Pensions	788,228	899,529	276,262	332,551	1,064,490	1,232,080
Total outflows of resources	<u>795,047</u>	<u>908,053</u>	<u>276,262</u>	<u>332,551</u>	<u>1,071,309</u>	<u>1,240,604</u>
Long-term liabilities	4,708,628	4,763,566	16,343,228	17,102,631	21,051,856	21,866,197
Other liabilities	564,733	443,845	197,836	409,525	762,569	853,370
Total liabilities	<u>5,273,361</u>	<u>5,207,411</u>	<u>16,541,064</u>	<u>17,512,156</u>	<u>21,814,425</u>	<u>22,719,567</u>
Deferred inflows						
Pensions	<u>202,506</u>	<u>365,975</u>	<u>70,975</u>	<u>138,345</u>	<u>273,481</u>	<u>504,320</u>
Net investment in capital assets	9,638,637	10,217,118	6,990,951	6,184,575	16,629,588	16,401,693
Restricted	1,340,384	844,824	2,847,096	2,831,413	4,187,480	3,676,237
Unrestricted	(3,924,288)	(2,052,531)	1,845,147	2,441,667	(2,079,141)	389,136
Total net position	<u>\$ 7,054,733</u>	<u>\$ 9,009,411</u>	<u>\$ 11,683,194</u>	<u>\$ 11,457,655</u>	<u>\$ 18,737,927</u>	<u>\$ 20,467,066</u>

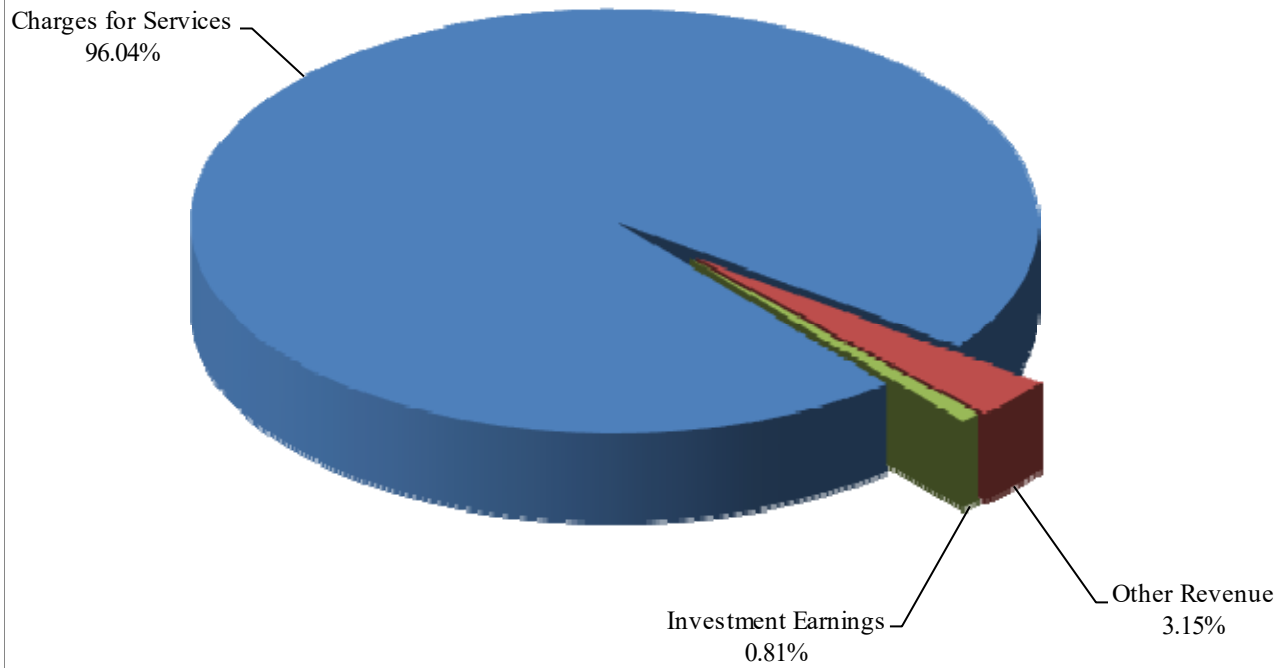
Governmental Activities: Governmental and business-type activities decreased the net position of the City by \$1,734,936
Key elements of the decrease are as follows:

Change in Net Position – Comparative September 30, 2017 and September 30, 2016

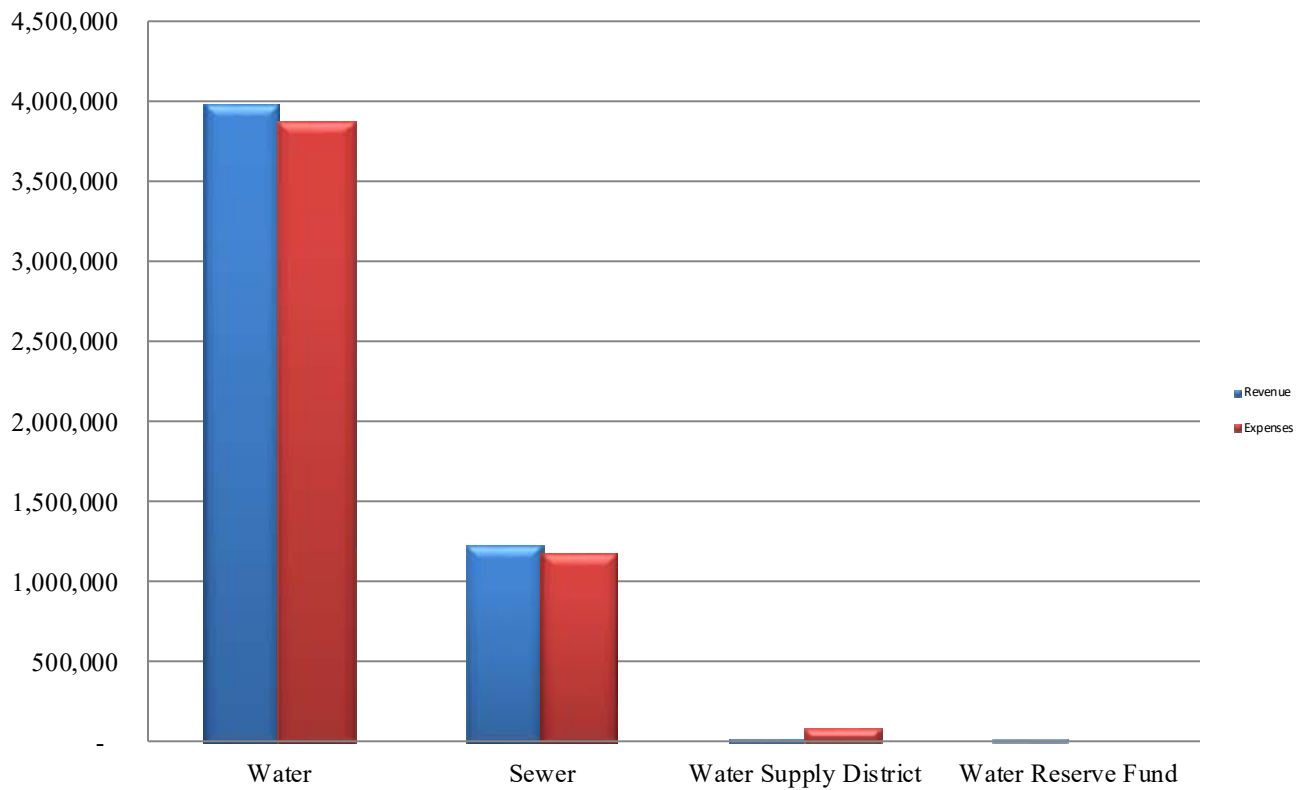
	Governmental Activities		Business-type Activities		Total	
	2017	Restated 2016	2017	Restated 2016	2017	Restated 2016
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,648,765	\$ 2,856,150	\$ 5,023,333	\$ 4,858,981	\$ 7,672,098	\$ 7,715,131
Operating Grants and Contributions	23,445	572,571	-	-	23,445	572,571
General Revenues						
Property Taxes	2,346,125	2,332,118	-	-	2,346,125	2,332,118
Sales & Other Taxes	2,647,393	2,581,986	-	-	2,647,393	2,581,986
Investment Earnings	7,979	7,466	42,334	32,266	50,313	39,732
Miscellaneous	691,334	766,082	164,542	116,031	855,876	882,113
Total Revenue	8,365,041	9,116,373	5,230,209	5,007,278	13,595,250	14,123,651
Expenses:						
General Government	839,778	935,192	-	-	839,778	935,192
Public Safety	3,557,309	3,425,659	-	-	3,557,309	3,425,659
Public Works	3,427,266	3,332,461	-	-	3,427,266	3,332,461
Health & Welfare	110,668	112,983	-	-	110,668	112,983
Culture & Recreation	1,747,688	1,790,219	-	-	1,747,688	1,790,219
Conservation & Development	455,365	500,863	-	-	455,365	500,863
Debt Related	56,645	89,217	-	-	56,645	89,217
Water supply district	-	-	88,984	88,984	88,984	88,984
Water	-	-	3,867,060	2,675,973	3,867,060	2,675,973
Sewer	-	-	1,173,626	1,024,322	1,173,626	1,024,322
Total Expenses	10,194,719	10,186,594	5,129,670	3,789,279	15,324,389	13,975,873
Change in net position before transfers	(1,829,678)	(1,070,221)	100,539	1,217,999	(1,729,139)	147,778
Transfers	(125,000)	916,666	125,000	(916,666)	-	-
Net Position - Beginning	9,009,411	9,162,966	11,457,655	11,156,322	20,467,066	20,319,288
Net Position - Ending	\$ 7,054,733	\$ 9,009,411	\$ 11,683,194	\$ 11,457,655	\$ 18,737,927	\$ 20,467,066



Revenue by Source - Business-type Activities



Revenue and Expense by Source - Business-type Activities



General Fund Budgetary Highlights

Actual expenditures were \$24,920 below final budget amounts.

Additionally, resources available were \$438,004 below the final budgeted amount.

- Property taxes were less than expected.
- Sales and use taxes were less than expected.
- Charges for services were less than expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. At the end of 2017, the City had invested \$33,873,205 in a broad range of capital assets, including land, equipment, buildings and vehicles:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 585,922	\$ 585,922	\$ -	\$ -	\$ 585,922	\$ 585,922
Construction in progress	-	-	-	16,894,235	-	16,894,235
Buildings and Improvements	11,738,628	11,738,628	18,398,120	676,487	30,136,748	12,415,115
Equipment	8,100,837	7,909,387	1,265,213	1,099,452	9,366,050	9,008,839
Infrastructure	10,723,491	10,723,491	-	-	10,723,491	10,723,491
Leasehold Improvements	31,741	31,741	-	-	31,741	31,741
Distribution and Collection Systems	-	-	17,454,317	17,454,317	17,454,317	17,454,317
Less: Accumulated Depreciation	(19,639,221)	(18,549,846)	(14,785,843)	(13,852,672)	(34,425,064)	(32,402,518)
Capital Assets, net	<u>\$ 11,541,398</u>	<u>\$ 12,439,323</u>	<u>\$ 22,331,807</u>	<u>\$ 22,271,819</u>	<u>\$ 33,873,205</u>	<u>\$ 34,711,142</u>

More detailed information about the City's capital assets is presented in the notes to the financial statements.

Debt

At year end, the City had \$13,780,000 in bonds and tax and revenue certificates of obligation payable, capital lease obligations of \$1,015,626 and notes payable of \$2,454,810. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2017-18 budget and tax rate. One of those factors is the economy.

These indicators were taken into account when adopting the General Fund budget for 2018. A surplus of revenues over expenditures of \$1,172.05 was budgeted. The City intends to tighten spending and hope sales tax slow recovery continues to enable financing programs the City currently offers. Total budgeted expenditures for the City General Fund are \$8,994,432.95. Total budgeted revenues for the City are \$8,995,605. This original budget includes \$125,500.00 for the purchase of Capital Expenditures. The City has added no other major new programs or initiatives to the 2017-18 budget.

Property taxes are budgeted to reflect a decrease in appraised values and a five percent increase in the tax rate was made to raise \$214,585 additional funds over last year. Conservative sales taxes are budgeted to reflect the slow recovery.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Business Office at: City of Graham, Texas, P. O. Drawer 1449, Graham, Texas 76450.

BASIC FINANCIAL STATEMENTS

CITY OF GRAHAM, TEXAS

Statement of Net Position

September 30, 2017

	Primary Government			Graham Economic Improvement Corporation
	Governmental Activities	Business Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 609,713	\$ 1,729,719	\$ 2,339,432	9,500
Investments	189,188	1,751,542	1,940,730	1,099,014
Receivables, net	621,010	795,689	1,416,699	-
Internal balances	(1,410,214)	1,410,214	-	-
Due from primary government	-	-	-	91,976
Due from component unit	184,458	-	184,458	-
Notes receivable	-	-	-	1,250
Capital assets				
Land and construction in progress	585,922	-	585,922	-
Other capital assets, net	10,955,476	22,331,807	33,287,283	673,906
Total Assets	11,735,553	28,018,971	39,754,524	1,875,646
DEFERRED OUTFLOWS OF RECOURCES				
Deferred outflows - pensions	788,228	276,262	1,064,490	-
Deferred charges for refunding	6,819	-	6,819	-
Total outflows of resources	795,047	276,262	1,071,309	-
LIABILITIES				
Accounts payable	383,434	118,677	502,111	3,127
Intergovernmental payable	81,727	-	81,727	-
Accrued expenses payable	7,596	79,159	86,755	-
Due to component units	91,976	-	91,976	-
Due to primary government	-	-	-	184,458
Noncurrent liabilities				
Due within one year	599,341	966,415	1,565,756	-
Due in more than one year	4,109,287	15,376,813	19,486,100	-
Total Liabilities	5,273,361	16,541,064	21,814,425	187,585
DEFERRED INFLOWS OF RECOURCES				
Deferred inflows - pensions	202,506	70,975	273,481	-
Total inflows of resources	202,506	70,975	273,481	-
NET POSITION				
Net investment in capital assets	9,638,637	6,990,951	16,629,588	673,906
Restricted for:				
Capital improvements	-	2,847,096	2,847,096	-
Tourism	419,120	-	419,120	-
Municipal court and law enforcement	57,203	-	57,203	-
Grants and library	21,272	-	21,272	-
Debt service	475,465	-	475,465	-
Cemetery (nonexpendable)	367,324	-	367,324	-
Unrestricted	(3,924,288)	1,845,147	(2,079,141)	1,014,155
Total Net Position	\$ 7,054,733	\$ 11,683,194	\$ 18,737,927	\$ 1,688,061

The accompanying notes are an integral part of these financial statements

CITY OF GRAHAM, TEXAS
Statement of Activities
Year Ended September 30, 2017

Functions / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 839,778	\$ 376,848	\$ -	\$ -
Public safety	3,557,309	111,994	23,445	-
Public works	3,427,266	1,783,622	-	-
Health and welfare	110,668	-	-	-
Culture and recreation	1,747,688	119,889	-	-
Conservation and development	455,365	256,412	-	-
Interest on Long-Term Debt	56,645	-	-	-
Total Governmental Activities	<u>10,194,719</u>	<u>2,648,765</u>	<u>23,445</u>	<u>-</u>
Business Type Activities				
Water fund	3,867,060	3,838,056	-	-
Sewer fund	1,173,626	1,185,277	-	-
Graham Water Supply District	88,984	-	-	-
Water Plant Reserve fund	-	-	-	-
Total Business Type Activities	<u>5,129,670</u>	<u>5,023,333</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 15,324,389</u>	<u>\$ 7,672,098</u>	<u>\$ 23,445</u>	<u>\$ -</u>
Component Unit				
Graham Economic Improvement Corp.	\$ 517,955	\$ -	\$ -	\$ -
Total Component Units	<u>\$ 517,955</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues and Transfers

Property Taxes, Levied for General Purposes
Sales Tax
Franchise Tax
Other Taxes
Penalty and Interest
Contributions Not Restricted to Programs
Miscellaneous
Gain on Sale of Assets
Investment Income
Transfers
Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning (Restated)

Net Position - Ending

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Graham Economic Improvement Corp.
\$ (462,930)		\$ (462,930)	
(3,421,870)		(3,421,870)	
(1,643,644)		(1,643,644)	
(110,668)		(110,668)	
(1,627,799)		(1,627,799)	
(198,953)		(198,953)	
(56,645)		(56,645)	
<u>(7,522,509)</u>		<u>(7,522,509)</u>	
	\$ (29,004)	(29,004)	
	11,651	11,651	
	(88,984)	(88,984)	
	-	-	
	<u>(106,337)</u>	<u>(106,337)</u>	
	(106,337)	(7,628,846)	
			\$ (517,955)
			<u>(517,955)</u>
2,346,125	-	2,346,125	-
1,817,980	-	1,817,980	365,775
607,670	-	607,670	-
191,650	-	191,650	-
30,093	-	30,093	-
35,968	-	35,968	-
634,929	164,542	799,471	59,400
20,437	-	20,437	-
7,979	42,334	50,313	2,905
(125,000)	125,000	-	-
<u>5,567,831</u>	<u>331,876</u>	<u>5,899,707</u>	<u>428,080</u>
(1,954,678)	225,539	(1,729,139)	(89,875)
<u>9,009,411</u>	<u>11,457,655</u>	<u>20,467,066</u>	<u>1,777,936</u>
<u>\$ 7,054,733</u>	<u>\$ 11,683,194</u>	<u>\$ 18,737,927</u>	<u>\$ 1,688,061</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GRAHAM, TEXAS
 Balance Sheet - Governmental Funds
 September 30, 2017

	General Fund	Other Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 1,013,148	\$ 1,013,148
Investments	35,977	153,211	189,188
Taxes receivable	449,517	7,247	456,764
Allowance for uncollectible taxes (credit)	(20,817)	(1,450)	(22,267)
Receivables (net of allowances for uncollectables)	186,513	-	186,513
Due from component unit	184,458	-	184,458
Due from other funds	139,743	615,826	755,569
Total Assets	<u>\$ 975,391</u>	<u>\$ 1,787,982</u>	<u>\$ 2,763,373</u>
LIABILITIES , DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts payable and other accrued expenses	\$ 383,334	\$ 100	\$ 383,434
Overdrafted cash	403,435	-	403,435
Intergovernmental payable	81,727	-	81,727
Due to other funds	1,832,401	333,382	2,165,783
Due to component unit	91,976	-	91,976
Total Liabilities	<u>2,792,873</u>	<u>333,482</u>	<u>3,126,355</u>
Deferred Inflows of Resources			
Property taxes	61,607	5,797	67,404
Total Deferred Inflows of Resources	<u>61,607</u>	<u>5,797</u>	<u>67,404</u>
Fund Balance			
Nonspendable	-	367,324	367,324
Restricted	-	973,060	973,060
Assigned	-	270,016	270,016
Unassigned	(1,879,089)	(161,697)	(2,040,786)
Total Fund Balance	<u>(1,879,089)</u>	<u>1,448,703</u>	<u>(430,386)</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 975,391</u>	<u>\$ 1,787,982</u>	<u>\$ 2,763,373</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GRAHAM, TEXAS
 Reconciliation of the Governmental Funds Balance Sheet
 To the Statement of Net Position
 September 30, 2017

Total Fund Balances - Governmental Funds	\$ (430,386)
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	11,541,398
Long-term obligations payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds balance sheet.	(1,909,580)
Interest payable on bonds is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due.	(7,596)
Deferred losses on bond refunding are recorded as other financing sources and uses when paid in the fund financial statements but are capitalized and amortized in the government-wide financial statements over the life of the bonds.	6,819
Certain assets, such as property taxes receivable, are not available to pay for current-period expenditures and are therefore deferred in the governmental funds. Unearned revenue recognized in the government-wide financial statements results in a net increase to net position.	67,404
Included in the items related to debt is the recognition of the City's proportionate share of the net pension liability in the amount of \$2,001,995, a deferred outflow of resources of \$788,228 and a deferred inflow of resources of \$202,506. The net effect is to decrease net position.	(1,416,273)
Other postemployment benefits obligation are not due and payable in the current period and, therefore, are not reported as a liability in the governmental funds balance sheet.	<u>(797,053)</u>
Net Position of Governmental Activities	<u><u>\$ 7,054,733</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF GRAHAM, TEXAS
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
Year Ended September 30, 2017

	General Fund	Other Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 4,579,818	\$ 400,522	\$ 4,980,340
Licenses and permits	20,488	-	20,488
Intergovernmental revenue and grants	23,445	-	23,445
Charges for services	1,890,090	5,535	1,895,625
Fines	219,840	-	219,840
Rents and royalties	75,243	-	75,243
Contributions and donations from private sources	123,718	35,968	159,686
Other revenue	579,356	369,424	948,780
Investment earnings	2,848	5,131	7,979
Total revenues	<u>7,514,846</u>	<u>816,580</u>	<u>8,331,426</u>
EXPENDITURES			
Current			
General government	710,431	4,611	715,042
Public safety	3,232,607	-	3,232,607
Public works	2,963,096	-	2,963,096
Health and welfare	107,415	-	107,415
Culture and recreation	1,249,751	86,974	1,336,725
Conservation and development	117,531	312,718	430,249
Debt service			
Principal	441,305	120,000	561,305
Interest	60,556	8,825	69,381
Capital outlay	263,802	-	263,802
Total expenditures	<u>9,146,494</u>	<u>533,128</u>	<u>9,679,622</u>
(Deficiency) Excess of Revenue over Expenditures	<u>(1,631,648)</u>	<u>283,452</u>	<u>(1,348,196)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of long-term debt	263,646	-	263,646
Proceeds from the sale of capital assets	21,482	-	21,482
Transfers In	-	131,761	131,761
Transfers Out	(256,761)	-	(256,761)
Total Other Financing Sources (Uses)	<u>28,367</u>	<u>131,761</u>	<u>160,128</u>
Net Change in Fund Balance	(1,603,281)	415,213	(1,188,068)
Fund Balance - October 1 (Beginning) - restated	<u>(275,808)</u>	<u>1,033,490</u>	<u>757,682</u>
Fund Balance - September 30 (Ending)	<u>\$ (1,879,089)</u>	<u>\$ 1,448,703</u>	<u>\$ (430,386)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GRAHAM, TEXAS
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
 and Changes in Fund Balance to the Statement of Activities
 September 30, 2017

Total Net Change in Fund Balance - Governmental Funds \$ (1,188,068)

Amounts reported for *governmental activities* in the statement of activities are different because:

Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. 263,802

Depreciation is not recognized as an expenditure in governmental funds since it does not require the use of current financial resources. (1,160,682)

Proceeds from sale of assets are recorded in the fund financial statements but are reduced by the net book value of those assets in the government-wide financial statements. (1,045)

Issuance of notes payable and capital leases are reported as other financing sources in the fund financial statements but are shown as long term liabilities in the government-wide financial statements. (263,646)

Deferred losses on refundings are amortized over the life of the bonds in the government-wide financial statements. (1,705)

Principal payments are expenditures in the fund financial statements, but they are shown as reductions in long-term debt in the government-wide financial statements. 561,303

Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. 12,736

Long-term liabilities for other postemployment benefit obligations are accrued in the government-wide financial statements, but are not reported in the fund financial statements. (135,788)

Certain expenditures for the pension that are recorded to the fund financial statements must be recorded as deferred outflows of resources. Contributions made after the measurement date caused the changes in net position to increase in the amount of \$264,912. The City's share of the unrecognized deferred inflows and outflows as of the measurement date must be amortized and the City's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$319,675. The net effect is an increase in net position. (54,763)

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. The current year revenue recognized in the government-wide financial statements results in an increase in net position. 13,178

Change in Net Position of Governmental Activities \$ (1,954,678)

The accompanying notes are an integral part of these financial statements.

CITY OF GRAHAM, TEXAS
Statement of Net Position - Proprietary Funds
September 30, 2017

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Graham Water Supply District
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 551,502	\$ 400,738	\$ 482,491
Investments	511,933	130,856	541,841
Accounts receivables -net	647,185	148,504	-
Due from other funds	599,750	73,500	819
Total Current Assets	<u>2,310,370</u>	<u>753,598</u>	<u>1,025,151</u>
Noncurrent Assets			
Capital assets			
Other capital assets, net	20,291,676	801,771	1,238,360
Total Noncurrent Assets	<u>20,291,676</u>	<u>801,771</u>	<u>1,238,360</u>
Total Assets	<u>22,602,046</u>	<u>1,555,369</u>	<u>2,263,511</u>
DEFERRED OUTFLOWS OF RECOURCES			
Deferred outflows - pensions	196,546	79,716	-
Total Deferred Outflows of Resources	<u>196,546</u>	<u>79,716</u>	<u>-</u>
LIABILITIES			
Current Liabilities			
Accounts payable and other liabilities	51,828	66,849	-
Due to other funds	8,900	215,000	-
Accrued interest payable	79,159	-	-
Bonds payable	520,000	-	-
Capital leases and notes payable-current	355,293	91,122	-
Total Current Liabilities	<u>1,015,180</u>	<u>372,971</u>	<u>-</u>
Non Current Liabilities:			
Bonds payable	12,695,000	-	-
Capital leases and notes payable	1,535,114	144,327	-
Customer meter deposits	30,890	-	-
Net pension obligation	499,200	202,467	-
Net OPEB obligation	198,715	71,100	-
Total Noncurrent Liabilities	<u>14,958,919</u>	<u>417,894</u>	<u>-</u>
Total Liabilities	<u>15,974,099</u>	<u>790,865</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pensions	50,495	20,480	-
Total Deferred Inflows of Resources	<u>50,495</u>	<u>20,480</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	5,186,269	566,322	1,238,360
Restricted for capital improvements	-	-	1,025,151
Unrestricted net assets	1,587,729	257,418	-
Total Net Position	<u>\$ 6,773,998</u>	<u>\$ 823,740</u>	<u>\$ 2,263,511</u>

Water Plant Reserve Fund	Total Enterprise Funds
\$ 294,988	\$ 1,729,719
566,912	1,751,542
-	795,689
960,864	1,634,933
<u>1,822,764</u>	<u>5,911,883</u>
-	22,331,807
-	<u>22,331,807</u>
<u>1,822,764</u>	<u>28,243,690</u>
-	276,262
-	<u>276,262</u>
-	118,677
819	224,719
-	79,159
-	520,000
-	446,415
<u>819</u>	<u>1,388,970</u>
-	12,695,000
-	1,679,441
-	30,890
-	701,667
-	269,815
<u>-</u>	<u>15,376,813</u>
<u>819</u>	<u>16,765,783</u>
-	70,975
-	<u>70,975</u>
-	6,990,951
1,821,945	2,847,096
-	1,845,147
<u>\$ 1,821,945</u>	<u>\$ 11,683,194</u>

The accompanying notes are an integral part of these financial statements

CITY OF GRAHAM, TEXAS
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
Year Ended September 30, 2017

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Graham Water Supply District
OPERATING REVENUE			
Charges for Water Services	\$ 3,769,636	\$ -	\$ -
Charges for Sewer Services	68,420	1,185,277	-
Rents and Royalties	129,339	-	-
Other Revenue	3,574	31,629	-
Total Operating Revenues	<u>3,970,969</u>	<u>1,216,906</u>	<u>-</u>
OPERATING EXPENSES			
Personal Services - Salaries and Wages	801,974	340,872	-
Personal Services - Employee Benefits	372,389	219,131	-
Purchased Professional and Technical Services	239,867	39,594	-
Purchased Property Services	256,218	159,269	-
Other Operating Expenses	452,190	119,626	-
Supplies	384,306	182,860	-
Depreciation	744,485	99,702	88,984
Total Operating Expenses	<u>3,251,429</u>	<u>1,161,054</u>	<u>88,984</u>
Operating Income (Loss)	<u>719,540</u>	<u>55,852</u>	<u>(88,984)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment Earnings	13,019	2,163	20,211
Interest Expense	(615,631)	(12,572)	-
Total Nonoperating Revenues (Expenses)	<u>(602,612)</u>	<u>(10,409)</u>	<u>20,211</u>
Income (Loss) Before Transfers	<u>116,928</u>	<u>45,443</u>	<u>(68,773)</u>
Transfers in	125,000	-	-
Change in Net Position	<u>241,928</u>	<u>45,443</u>	<u>(68,773)</u>
Total Net Position-October 1 - restated	<u>6,532,070</u>	<u>778,297</u>	<u>2,332,284</u>
Total Net Position - September 30	<u>\$ 6,773,998</u>	<u>\$ 823,740</u>	<u>\$ 2,263,511</u>

Water Plant Reserve Fund	Total Enterprise Funds
\$ -	\$ 3,769,636
-	1,253,697
-	129,339
-	35,203
-	5,187,875
-	1,142,846
-	591,520
-	279,461
-	415,487
-	571,816
-	567,166
-	933,171
-	4,501,467
-	686,408
6,941	42,334
-	(628,203)
6,941	(585,869)
6,941	100,539
-	125,000
6,941	225,539
1,815,004	11,457,655
<u>\$ 1,821,945</u>	<u>\$ 11,683,194</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GRAHAM, TEXAS
Statement of Cash Flows - Proprietary Funds
Year Ended September 30, 2017

	<u>Business-type Activities - Enterprise Funds</u>	
	<u>Water Fund</u>	<u>Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 3,712,732	\$ 1,222,059
Cash received from other sources	129,339	27,128
Cash payment for operating expenses	<u>(2,786,240)</u>	<u>(989,847)</u>
Net cash provided by operating activities	<u>1,055,831</u>	<u>259,340</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from other funds	125,000	-
Cash loaned to other funds	-	-
Cash borrowed from other funds	-	-
Net cash provided by noncapital financing activities	<u>125,000</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(900,824)	(92,334)
Proceeds from notes payable and capital leases	71,899	84,674
Interest paid on long-term debt	(615,631)	(12,572)
Principal paid on long-term debt	<u>(850,837)</u>	<u>(75,617)</u>
Net cash used for capital and related financing activities	<u>(2,295,393)</u>	<u>(95,849)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	13,019	2,163
Change in pooled investments	<u>1,427,813</u>	<u>157,814</u>
Net cash provided by (used for) investing activities	<u>1,440,832</u>	<u>159,977</u>
Net (decrease) increase in cash and cash equivalents	326,270	323,468
Cash and cash equivalents - October 1	<u>225,232</u>	<u>77,270</u>
Cash and cash equivalents - September 30	<u>\$ 551,502</u>	<u>\$ 400,738</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 719,540	\$ 55,852
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	744,485	99,702
Effect of increase and decrease in current assets and liabilities:		
(Increase) in receivables	(128,898)	36,782
Increase in deferred outflows	42,575	13,714
Increase (decrease) in accounts payable	(164,595)	44,058
Decrease in accrued expenses	(91,152)	-
(Decrease) in net pension liability	(46,125)	13,859
Increase in OPEB	33,859	13,733
Decrease in customer meter deposits	(4,848)	-
Decrease in deferred inflows	<u>(49,010)</u>	<u>(18,360)</u>
Net cash provided by operating activities	<u>\$ 1,055,831</u>	<u>\$ 259,340</u>

Graham Water Supply District	Water Plant Reserve Fund	Total Enterprise Funds
\$ -	\$ -	\$ 4,934,791
-	-	156,467
-	-	(3,776,087)
-	-	1,315,171
	-	125,000
(819)		(819)
-	819	819
(819)	819	125,000
	-	(993,158)
-	-	156,573
-	-	(628,203)
-	-	(926,454)
-	-	(2,391,242)
20,211	6,941	42,334
(136,450)	128,325	1,577,502
(116,239)	135,266	1,619,836
(117,058)	136,085	668,765
599,549	158,903	1,060,954
\$ 482,491	\$ 294,988	\$ 1,729,719
	-	686,408
(88,984)	-	933,171
88,984	-	(92,116)
-	-	56,289
-	-	(120,537)
-	-	(91,152)
-	-	(32,266)
-	-	47,592
-	-	(4,848)
-	-	(67,370)
\$ -	\$ -	\$ 1,315,171

The accompanying notes are an integral part of these financial statements.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 1: Reporting Entity

The City of Graham, Texas (the City) was founded in 1872. The City operates under the Council-Manager form of government adopted by a home rule charter approved March 3, 1893. The City provides a full range of municipal services including public safety (police and fire), highway and streets, sanitation, culture and recreation, health and social services, public improvement, planning and zoning, and general administrative services. In addition, the City provides water and sewer service as a proprietary function of the City.

The accounting policies of the City of Graham, Texas, conform to generally accepted accounting principles issued by the Governmental Accounting Standards Board (GASB) which is the recognized financial accounting standard setting body for governmental entities. The notes to the financial statements are an integral part of the City's basic financial statements.

The City of Graham is a home rule municipality governed by an elected mayor and a four member City Council who appoint a City Manager. The City's financial statements include its component units. The accompanying basic financial statements comply with the provisions of the GASB Statement No. 14, as amended by GASB No. 61 *The Financial Reporting Entity*, in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Blended Component Unit

The Graham Water Supply District (GWSD), an entity legally separate from the City, is governed by a five member board appointed by the City Council. The GWSD is reported as an enterprise fund.

Discretely Presented Component Units

The Graham Economic Improvement Corporation (GEIC) is responsible for promoting and assisting economic development activities in the City. The GEIC is to cover any operating deficits of the Young County Arena by making an annual transfer to the City's arena special revenue fund. Therefore, this seven member board, who is appointed by the governing body of the City, is responsible for promoting and assisting economic improvement activities in the City. The GEIC is presented as a nonmajor enterprise fund type.

Note 2: Summary of Significant Accounting Policies

The accounting and reporting policies of the City conform to U.S. generally accepted accounting principles (GAAP) applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the GASB, which includes all statements and interpretations of the National Council on Governmental Accounting unless modified by the GASB.

Government-wide and fund financial statements

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

The Statement of Net Position reports the assets and liabilities of the primary government. The net position section of this statement represents the residual amount of assets less their associated liabilities. The net position section is divided into three categories. The first category is Invested in Capital Assets, Net of Related Debt, which includes all capital assets, net of accumulated depreciation, less any debt outstanding associated with the assets. Capital assets cannot readily be sold and converted into cash.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 2: Summary of Significant Accounting Policies – continued

The second category is Restricted Net Position, which includes those assets, net of their related debt, that have a constraint placed on their use. The constraints are either 1) externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws and regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. The final section is Unrestricted Net Position, and this represents net position that generally can be used for any purpose. However, they are not necessarily in a spendable form, like cash.

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

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

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when 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.

Governmental Funds

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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 general fund balance is available for any purpose, provided it is expended or transferred in accordance with the legally adopted budget of the City.

Additionally, the government reports the following nonmajor governmental fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted or assigned to expenditures for specified purposes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of and use of property and sales tax revenue to meet the debt service requirements of the City's general and revenue bonded debt.

Permanent Fund – The City uses this fund to account for non-expendable trust arrangements where the principal may not be spent, and the earnings must be spent for a particular purpose. This fund is used to report the activity of the Cemetery Fund.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 2: Summary of Significant Accounting Policies – continued

Proprietary funds are those used to account for the City's ongoing organizations and activities which are similar to those found in the private sector. The measurement focus is upon capital maintenance and upon determination of net position and changes in net position.

The government reports the following major proprietary funds:

The *Water Plant Reserve Fund* accounts for the investments and interest earned in order to fund the construction of the City's water treatment plant.

The *Water Fund* accounts for the activities of the City's water distribution operations.

The *Sewer Fund* accounts for the activities of the City's sewage collection operations.

The *Graham Water Supply District Fund* accounts for the activities of the GWSD, a blended component unit of the City. Its purpose is to finance and construct the City's water treatment plant.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenues include all taxes.

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 enterprise funds are charges for services. Operating expense for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Stewardship, Compliance, and Accountability

Budgetary Information

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

The City Manager submits to City Council (the Council) a proposed budget.

The Council holds a public hearing on the budget submitted and all interested persons are given an opportunity to be heard for or against any item or the amount of any item contained therein.

After the conclusion of the public hearing, the Council may insert new items or may increase or decrease the items of the budget, except items in proposed expenditures fixed by law, but where it increases the total proposed expenditures, it also provides for an increase in the total anticipated revenue to at least equal such total proposed expenditures.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 2: Summary of Significant Accounting Policies – continued

The budget is adopted by a majority vote of the members of the whole Council.

The budget must be adopted no later than the September 30th. Should the Council take no final action on or prior to such day, the budget as submitted by the City Manager shall be deemed to have been finally adopted by the Council.

The City Manager may at any time transfer any unencumbered appropriation balance or portion thereof between general classifications of expenditures within an office, department or agency. Therefore, expenditures should not exceed appropriations at the “agency” level (i.e., general government, public safety, public works, culture and recreation, and debt service). The Council may transfer any unencumbered appropriation balance or portion thereof from one office, department or agency to another through formal budget amendments. Unencumbered appropriations lapse at year-end.

Annual budgets are prepared for the general fund. Annual budgets are also prepared for water and sewer proprietary funds.

Budgets for the general fund are prepared and adopted on a basis of accounting under which encumbered amounts at year-end are shown as additions to expenditures for budget purposes in the year in which encumbered. This basis of accounting is used for budgetary reports to determine compliance with budget requirements and is not intended to represent GAAP. The annual budgets for the proprietary fund types are also prepared on a basis other than GAAP. The differences are that depreciation is not budgeted, and capital outlay is budgeted in addition to the fact that encumbrances are included for budget purposes.

Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Assets, Liabilities, and Net Position or Equity

Deposits and Investments

For purposes of the statement of cash flows, the City’s cash and cash investments are considered to be cash on hand, demand deposits, and highly liquid investments with original maturities of three months or less from the date of acquisition. The City pools cash resources of its various funds to facilitate the management of cash. Management can readily identify cash applicable to a particular fund. The balance in the pooled cash accounts is available to meet current operating requirements. The depository bank pays the City interest on all funds on deposit.

Investments having a maturity of one year or more, when purchased, are stated at fair value. Short-term investments are stated at cost or amortized cost.

Inventories

The City generally does not report inventories of supplies such as consumable maintenance, office, and water and sewer inventory items due to the value of these items on hand at any given date being deemed immaterial. The City had no material inventories as of September 30, 2017.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/due from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 2: Summary of Significant Accounting Policies – continued

Receivables and Payables – continued

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles.

Property taxes are levied on October 1 by the City based on January 1 property values as assessed by the Graham County Central Appraisal District. Taxes are due, without penalty, by January 31, of the next calendar year. After January 31, the City has an enforceable lien with respect to both real and personal property. Under state law, property taxes levied on real property constitute a perpetual lien on the real property which cannot be forgiven without specific approval of the State Legislature. Taxes applicable to personal property can be deemed uncollectible by the City.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized but are charged to operations as incurred. Improvements and betterments which materially extend the useful lives of capital assets are capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Contributions of capital assets from external sources are recorded as capital contribution revenue.

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

Buildings	30 years
Improvements other than building	40 years
Machinery and equipment	10 years
Office equipment	10 years
Vehicles	7 years

Compensated Absences

Permanent employees who have completed one year's service to twenty or more years with the City are entitled to 12 to 24 days vacation annually. Employees are permitted to carry over up to two years of vacation leave each year. Payment in lieu of vacation taken is prohibited by the City's policy; therefore, no liability is recorded.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has items that qualify for reporting in this category. They include the deferred charge on bond refunding reported in the government-wide statement of net position, as well as deferred outflows related to the City's pension with the Texas Municipal Retirement System (TMRS.)

In addition to liabilities, the statement of net 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. The City has items that qualify for reporting in this category. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has deferred inflows reported in the statement of net position related to the City's pension with TMRS.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 2: Summary of Significant Accounting Policies – continued

Pensions

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

Long-Term Debt

In the government-wide financial statements and the proprietary fund types 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 statement of net position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight line method which approximates 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.

The amount capitalized under capital leases is the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. When a governmental fund type acquires a capital asset through a capital lease agreement, the acquisition is reflected as an expenditure and other financing source. Capitalized leases of proprietary funds are accounted for entirely within the respective proprietary fund by capitalizing the asset acquired and recording the lease obligation as a liability.

Fund Equity

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The City's fund balance reported as Nonspendable at September 30, 2016 include amounts that are legally or contractually required to be maintained intact (Cemetery Perpetual Care Permanent Fund.)

Restricted – Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law through constitutional provisions or enabling legislation.

Committed – includes amounts that can be used only for the specific purposes as established by a Council resolution or ordinance.

Assigned – includes amounts that are constrained by the City Council, or by another city official or the finance division to which the City Council has delegated authority, that are intended to be used for specific purposes but are neither restricted nor committed.

Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

Details of constraints on fund balances of governmental funds at September 30, 2017 are as follows:.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 2: Summary of Significant Accounting Policies – continued

Fund Equity – continued

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Cemetery Perpetual Care	\$	\$ 367,324	\$ 367,324
Restricted to:			
Tourism		434,709	434,709
Debt Service		475,465	475,465
Grants		61	61
Library		21,211	21,211
Law Enforcement		16,456	16,456
Municipal Court		25,158	25,158
Assigned to:			
Christmas Lights		202	202
Park Improvement		34,316	34,316
Community College		3,931	3,931
Young County Arena		91,838	91,838
Memorial Auditorium Fund		98,940	98,940
Wal Mart Street Fund		40,789	40,789
Main Street		-	-
Unassigned	(1,879,089)	(161,697)	(2,040,786)
	<u>\$ (1,879,089)</u>	<u>\$ 1,448,703</u>	<u>\$ (430,386)</u>

Fair Value Measurements

The City adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 inputs are observable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Implementation of GASB Statement No. 72 did not have a significant impact on the City's financial statements for the year ended September 30, 2017.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 3: Deposits and Investments

Cash and Cash Investments

Deposits were with the contracted depository banks in interest bearing accounts which were secured throughout the year by FDIC coverage and by securities conforming to the provisions of House Bill 1488 pledged to, and in the name of, the City. All deposits are deemed collateralized under the provisions of the Governmental Accounting Standards Boards' "Codification of Governmental Accounting Standards".

At year end, the City's carrying amount of deposits was \$2,339,432 and the bank balance was \$2,786,364. The entire balance was collateralized with federal depository insurance and securities held by the pledging financial institution's trust department or agent in the government's name.

The carrying amount and bank balance of deposits for the GEIC, a discretely presented component unit were \$9,500. The total amount of the bank balance was covered by federal depository insurance or by collateral held by the bank in the GEIC's name.

Investments

Credit Risk

The primary stated objective of the City's adopted Investment Policy is the safety of principal and avoidance of principal loss. Credit risk within the City's portfolio among the authorized investments approved by the City's adopted Investment Policy is represented only in time and demand deposits, repurchase agreements, and local government investment pools. All other investments are rated AAA, or equivalent, by at least one nationally recognized rating agency. Investments are made primarily in obligations of the U.S. Government, its agencies or instrumentalities and certificates of deposits.

State law and the City's adopted Investment Policy restricts both time and demand deposits, including certificates of deposit (CD), to those banks doing business in the state of Texas and further requires full insurance and/or to be collateralized from these depositories (banks and savings banks). Collateral, with a 102% margin, is required and collateral is limited to obligations of the U.S. Government, its agencies or instrumentalities, the State of Texas, and municipal obligations rated no less than "A" or equivalent by a nationally recognized rating agency. Independent safekeeping is required outside the pledging bank's holding company with monthly reporting. Securities are monitored and priced at market on a daily basis as a contractual responsibility of the bank.

By City policy and state law, repurchase agreements are limited to those with defined termination dates executed with a Texas bank or a primary dealer (as defined by the Federal Reserve Bank). The agreements require written master repurchase agreement. As of September 30, 2017,

- certificates of deposit represented 15% of the total portfolio,
- repurchase agreements represented 0% of the total portfolio,
- commercial paper represented 0% of the total portfolio,
- holdings in a non-rated money market mutual fund represented 85% of the total portfolio,
- fully collateralized bank deposits represented 0% of the total portfolio, and
- holdings in U.S. Government securities rated AAA represented 0% of the total portfolio.

Concentration of Credit Risk

The City of Graham recognizes over-concentration of assets by market sector or maturity as a risk to the portfolio. The City's adopted Investment Policy establishes diversification as a major objective of the investment program.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 3: Deposits and Investments – continued

Diversification limits are set by Policy as:

	% of Portfolio
U.S. Treasury Notes/ Bills	100%
U.S. Agencies & Instrumentalities	100%
State of Texas Obligations & Agencies	15%
Local Government Investment Pools	50%
Local Government Obligations (AA)	10%
Repurchase Agreements	25%
Certificates of Deposits	100%
U. S. Government Money Market Funds	50%

Interest Rate Risk

In order to limit interest and market rate risk from changes in interest rates, the City's adopted Investment Policy sets a maximum average maturity date of one year. Longer maturities may be utilized for bond proceeds but only if matched to planned expenditures of the funds. The Investment Policy establishes a maximum final stated maturity of any investment of five years.

A segmented time distribution analysis of the portfolio by market sector is shown in the table below.

Primary Government

<i>Investment Type</i>	Fair Value	Percentage of Total	Credit Rating	Investment Maturity	
				Less than 1 Year	Greater than 1 year
2A-7 like Local Government Pools	\$ 1,087,948	56.06%	AAA	\$ 1,087,948	\$ -
Certificates of Deposits	852,782	43.94%	N/A	442,506	410,276
Total Portfolio	\$ 1,940,730	100%		\$ 1,530,454	\$ 410,276

Graham Economic Improvement Corporation

Other Investments	1,099,014	100%	N/A	1,099,014	-
Total Portfolio	\$ 1,099,014	100%		\$ 1,099,014	\$ -

Investment pools are not categorized as to investment risk since specific securities relating to government cannot be identified. The City utilizes Texas Local Government Investment Pool (TexPool), Local Government Investment Cooperative (LOGIC) and Texas Short Term Asset Reserve Program (TexSTAR). The reported value of the pools are the same as the fair value of the pool shares.

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool. The reported value of the pool is the same as the fair value of the pool shares. TexPool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. Audited financial statements of the Pool are available at First Public, 12008 Research Blvd., Austin, Texas 78759. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

Local Government Investment Cooperative (LOGIC) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. J.P. Morgan Investment Management Inc. serves as investment advisor and co-administrator with First Southwest Asset Management, Inc. LOGIC invests in treasury and agency securities and repurchase agreements as well as prime commercial paper. The pool maintains a weighted average maturity of 60 days or less. The pool seeks to maintain a constant dollar objective.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 3: Deposits and Investments – continued

Texas Short Term Asset Reserve Program (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. J.P. Morgan Investment Management Inc. serves as investment advisor and co-administrator with First Southwest Asset Management, Inc. TexSTAR invests in treasury and agency securities and repurchase agreements fully collateralized by government securities. The pool maintains a weighted average maturity of 60 days or less. The pool seeks to maintain a constant dollar objective.

As of September 30, 2017, the portfolio contained no structured or callable notes.

Custodial Credit Risk

To control custody and safekeeping risk, state law and the City's adopted Investment Policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held by an independent party approved by the City and held in the City's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of FIRREA. The counter-party of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City. Both state law and the City's investment policies are subject to change. The City did not engage in repurchase nor reverse repurchase agreement transactions during the current year.

Note 4: Receivables

Receivables as of September 30, 2017 for the City's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts are as follows:

	General	Water	Sewer	Nonmajor Governmental	Total
Receivables:					
Taxes	\$ 449,517	\$ -	\$ -	\$ 7,247	\$ 456,764
Accounts	268,037	828,855	230,487	-	1,327,379
Gross receivables	717,554	828,855	230,487	7,247	1,784,143
Less: allowance for uncollectibles	(102,341)	(181,670)	(81,983)	(1,450)	(367,444)
Net total receivables	<u>\$ 615,213</u>	<u>\$ 647,185</u>	<u>\$ 148,504</u>	<u>\$ 5,797</u>	<u>\$ 1,416,699</u>

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 5: Capital Assets

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

	Beginning Balance	Additions	Retirements / Transfers	Ending Balance
Governmental activities				
Land	\$ 585,922	\$ -	\$ -	\$ 585,922
Buildings and improvements	11,738,628	-	-	11,738,628
Equipment	7,909,387	263,802	(72,352)	8,100,837
Infrastructure	10,723,491	-	-	10,723,491
Leasehold improvements	31,741	-	-	31,741
Total assets	30,989,169	263,802	(72,352)	31,180,619
Less accumulated depreciation				
Buildings and improvements	(4,430,336)	(338,914)	-	(4,769,250)
Equipment	(6,056,296)	(438,872)	71,307	(6,423,861)
Infrastructure	(8,024,416)	(378,284)	-	(8,402,700)
Leasehold improvements	(38,798)	(4,612)	-	(43,410)
Total accumulated depreciation	(18,549,846)	(1,160,682)	71,307	(19,639,221)
Governmental activities capital assets, net	\$ 12,439,323	\$ (896,880)	\$ (1,045)	\$ 11,541,398
	Beginning Balance	Additions	Retirements	Ending Balance
Business-type activities				
Construction in progress	\$ 16,894,235	\$ 827,398	\$ (17,721,633)	\$ -
Buildings and improvements	676,487	17,721,633	-	18,398,120
Equipment	1,099,452	165,761	-	1,265,213
Distribution and collection systems	17,454,317	-	-	17,454,317
Total Assets	36,124,491	18,714,792	(17,721,633)	37,117,650
Less accumulated depreciation				
Buildings and improvements	(141,515)	(18,480)	-	(159,995)
Equipment	(756,394)	(110,378)	-	(866,772)
Distribution and collection systems	(12,954,763)	(804,313)	-	(13,759,076)
Total accumulated depreciation	(13,852,672)	(933,171)	-	(14,785,843)
Business-type activities capital assets, net	\$ 22,271,819	\$ 17,781,621	\$ (17,721,633)	\$ 22,331,807

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 5: Capital Assets – continued

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

Governmental Activities		
General government	\$	110,363
Public safety		205,564
Highways and streets		437,134
Airport		3,253
Refuse disposal		382,179
Health and welfare		22,189
Total governmental activities	\$	<u>1,160,682</u>
Business-type Activities:		
Water	\$	833,469
Sewer		99,702
Total business-type activities	\$	<u>933,171</u>

Discretely presented component units

Activity for the GEIC for the year ended September 30, 2017 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Buildings and improvements	\$ 1,290,015	\$ -	\$ -	\$ 1,290,015
Less accumulated depreciation	(583,939)	(32,170)	-	(616,109)
GEIC capital assets, net	<u>\$ 706,076</u>	<u>\$ (32,170)</u>	<u>\$ -</u>	<u>\$ 673,906</u>

Note 6: Interfund Receivables, Payables and Transfers

The following is a summary of interfund receivables and payables:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Nonmajor governmental funds	\$ 107,825	Short-term loans
General Fund	Nonmajor governmental funds	31,918	Short-term loans
Nonmajor governmental funds	General Fund	241,776	Short-term loans
G.O. Bond Fund	General Fund	224,050	Short-term loans
Cemetery Fund	General Fund	150,000	Short-term loans
Water Fund	General Fund	599,750	Short-term loans
Sewer Fund	General Fund	73,500	Short-term loans
Graham Water Supply District	Water Plan Reserve Fund	819	Short-term loans
Water Plant Reserve Fund	Sewer Fund	215,000	Short-term loans
Water Plant Reserve Fund	Nonmajor governmental funds	193,639	Short-term loans
Water Plant Reserve Fund	General Fund	543,325	Short-term loans
Water Plant Reserve Fund	Water Fund	8,900	Short-term loans
		<u>\$ 2,390,502</u>	

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 6: Interfund Receivables, Payables and Transfers – continued

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Nonmajor governmental funds	\$ 8,761	Payment for air fuel
General Fund	Water Fund	125,000	Appropriations to the Water Fund
General Fund	Nonmajor governmental funds	123,000	CVB expenses
		<u>\$ 256,761</u>	

Note 7: Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended September 30, 2017:

	<u>Balance October 1</u>	<u>Issued</u>	<u>Retirements</u>	<u>Balance September 30</u>	<u>Due Within One Year</u>
Governmental activities					
Combination tax & revenue certificates of obligation	\$ 740,000	\$ -	\$ (175,000)	\$ 565,000	\$ 185,000
Notes payable	578,639	263,646	(237,428)	604,857	279,140
Capital leases	888,598	-	(148,875)	739,723	135,201
Net pension obligation	1,895,064	1,255,709	(1,148,778)	2,001,995	-
OPEB	661,265	197,571	(61,783)	797,053	-
Total governmental activity long-term liabilities	<u>\$ 4,763,566</u>	<u>\$ 1,716,926</u>	<u>\$ (1,771,864)</u>	<u>\$ 4,708,628</u>	<u>\$ 599,341</u>
Business-type Activities					
Combination tax & revenue certificates of obligation	\$ 13,720,000	\$ -	\$ (505,000)	13,215,000	\$ 520,000
Notes payable	2,104,431	111,800	(366,278)	1,849,953	388,127
Capital leases	286,306	44,774	(55,177)	275,903	58,288
Customer deposits payable	35,738	-	(4,848)	30,890	-
Net pension obligation	733,933	327,232	(359,498)	701,667	-
OPEB	222,223	69,246	(21,654)	269,815	-
Total Business-type Activity long-term liabilities	<u>\$ 17,102,631</u>	<u>\$ 553,052</u>	<u>\$ (1,312,455)</u>	<u>\$ 16,343,228</u>	<u>\$ 966,415</u>

Governmental Activities

Bonds Payable:

In fiscal year 2013, the City issued \$1,250,000 in General Obligation Refunding Bonds, with interest rates ranging from 1.0% to 2.0% to refund a portion of its outstanding debt for debt service savings. The portion of the debt that represents refunded bonds were the Series 2003 Combination Tax and Revenue Certificate of obligation bonds and the 2006 Certificates of Obligation, totaling \$1,205,000 and carried remaining interest rates ranging from 4.25% to 4.35%, both maturing in 2018 and 2021, respectively. As of September 30, 2017, the bonds have an outstanding balance of 565,000.

Notes Payable:

In September 2014, the City entered into a \$147,000 note payable to Graham Inter Bank for the purchase of equipment. The note carries an interest rate of 4.00% and is payable in three annual payments of \$52,975. The note matured on September 10, 2017 and is secured by the equipment. As of September 30, 2017, the note has a zero balance.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 7: Long-Term Obligations – continued

Notes Payable – continued:

In June 2015, the City entered into a \$157,062 note payable to Graham Inter Bank for the purchase of equipment. The note carries an interest rate of 4.25% and is payable in three annual payments of \$56,872. The note matures on June 4, 2018 and is secured by the equipment. As of September 30, 2017, the note has an outstanding balance of \$54,535.

In May 2016, the City entered into a \$421,306 note payable to Graham Inter Bank for the purchase of equipment. The note carries an interest rate of 4.25% and is payable in three annual payments of \$151,905. The note matures on May 11, 2019 and is secured by the equipment. As of September 30, 2017, the note has an outstanding balance of \$286,674.

In November 2016, the City entered into a \$263,647 note payable to Graham Inter Bank for the purchase of equipment. The note carries an interest rate of 4.25% and is payable in three annual payments of \$95,450. The note matures on November 18, 2019 and is secured by the equipment. As of September 30, 2017, the note has an outstanding balance of \$263,648.

Annual debt service requirements for the governmental activities are as follows:

Year Ending September 30	Bonds		Notes Payable		Total Requirements
	Principal	Interest	Principal	Interest	
2018	\$ 185,000	\$ 7,900	\$ 279,140	\$ 25,706	\$ 497,746
2019	125,000	6,038	234,249	13,843	379,130
2020	125,000	3,850	91,468	3,887	224,205
2021	130,000	1,300	-	-	131,300
Totals	\$ 565,000	\$ 19,088	\$ 604,857	\$ 43,436	\$ 1,232,381

Business-type Activities

Bonds Payable:

In 2013, the City issued \$2,445,000 of special assessment debt to provide funds for the construction of a new water treatment facility. The bonds have a stated interest rate of 4.00% and final payment is due February 15, 2033. As of September 30, 2017 the outstanding principal on the bonds is \$2,135,000.

In 2014, the City issued \$12,285,000 of special assessment debt to provide funds for the improving and extending of the City's Waterworks System, including the acquisition of land and rights-of-way and paying legal and engineering fees in connection with such project. The bonds have a stated interest rate ranging from 4.00% to 5.00% and final payment is due February 15, 2026. As of September 30, 2017, the outstanding principal balance was \$11,080,000.

Notes Payable:

In September 2014, the City entered into a \$67,000 note payable to Graham Inter Bank for the purchase of equipment. The note carries an interest rate of 4.00% and is payable in three annual payments of \$24,145. The note matured on September 10, 2017 and is secured by the equipment. As of September 30, 2017, the note has a zero balance.

In June 2015, the City entered into a \$204,334 note payable to Graham Inter Bank for the purchase of equipment. The note carries an interest rate of 4.25% and is payable in three annual payments of \$73,989. The note matures on June 4, 2018 and is secured by the equipment. As of September 30, 2017, the note has an outstanding balance of \$70,949.

In May 2016, the City entered into a \$96,666 note payable to Graham Inter Bank for the purchase of equipment. The note carries an interest rate of 4.25% and is payable in three annual payments of \$35,632. The note matures on May 11, 2019 and is secured by the equipment. As of September 30, 2017, the note has an outstanding balance of \$66,150.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 7: Long-Term Obligations – continued

Notes Payable – continued:

In March 2016, the City entered into a \$1,844,540 note payable to Government Capital Corporation for the purchase of an automated meter reading system. The note carries an interest rate of 2.75% and is payable in seven annual payments of \$293,277. The note matures on March 1, 2023 and is secured by the system equipment. As of September 30, 2017, the note has an outstanding balance of \$1,601,053.

In November 2016, the City entered into a \$111,800 note payable to Graham Inter Bank for the purchase of equipment. The note carries an interest rate of 4.25% and is payable in three annual payments of \$40,484. The note matures on November 18, 2019 and is secured by the equipment. As of September 30, 2017, the note has an outstanding balance of \$111,801.

Annual debt service requirements for business-type activities are as follows:

Year Ending September 30	Bonds		Notes Payable		Total Requirements
	Principal	Interest	Principal	Interest	
2018	\$ 520,000	\$ 620,458	\$ 388,127	\$ 54,617	\$ 1,583,202
2019	545,000	602,145	327,336	41,861	1,516,342
2020	565,000	582,958	301,932	31,807	1,481,697
2021	585,000	561,933	270,382	22,923	1,440,238
2022	615,000	538,533	277,817	15,488	1,446,838
2023-2027	3,575,000	2,262,110	284,359	7,849	6,129,318
2028-2032	4,715,000	1,290,309	-	-	6,005,309
2033-2034	2,095,000	162,283	-	-	2,257,283
Totals	\$ 13,215,000	\$ 6,620,729	\$ 1,849,953	\$ 174,545	\$ 21,860,227

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of a fire truck, vehicles, road equipment and the retrofit of the lighting throughout the city offices. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

In September 2012, the City entered into a long-term capital lease agreement with the American National Leasing Co. in the amount of \$28,262 at an annual rate of interest of 3.20% for a period of 5 years for the purpose of acquiring a 302.5C skid steer. Payments are due annually at an amount of \$4,303 with the final maturity in fiscal year 2017.

In September 2012, the City entered into a long-term capital lease agreement with the American National Leasing Co. in the amount of \$160,508 at an annual rate of interest of 3.2% for a period of 6 years for the purpose of acquiring a Caterpillar wheel loader. Payments are due annually at an amount of \$17,425 with the final maturity in fiscal year 2018.

In April 2013, the City entered into a long-term capital lease agreement with the Government Capital Corporation in the amount of \$40,832 at an annual rate of interest of 1.08% for a period of 20 months for the purpose of acquiring a Tahoe. Payments are due monthly at an amount of \$2,277 with the final maturity in fiscal year 2018. This vehicle was totaled, and the lease was paid off with insurance proceeds.

In December 2014, the City entered into a long-term capital lease agreement with the Government Capital Corporation. in the amount of \$301,295 at an annual rate of interest of 2.95% for a period of 6 years for the purpose of acquiring a fire truck. Payments are due annually at an amount of \$55,265 with the final maturity in fiscal year 2021.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 7: Long-Term Obligations – continued

Capital Leases – continued

In October 2015, the City entered into a long-term capital lease agreement with the First National Bank Leasing in the amount of \$32,795 at an annual rate of interest of 2.55% for a period of 5 years for the purpose of acquiring a Caterpillar skid steer. Payments are due monthly at an amount of \$181 with the final maturity in fiscal year 2021.

In October 2015, the City entered into a long-term capital lease agreement with the First National Bank Leasing in the amount of \$28,852 at an annual rate of interest of 2.55% for a period of 5 years for the purpose of acquiring a Caterpillar backhoe. Payments are due monthly at an amount of \$299 with the final maturity in fiscal year 2021.

In October 2015, the City entered into a long-term capital lease agreement with the First National Bank Leasing in the amount of \$89,211 at an annual rate of interest of 2.55% for a period of 5 years for the purpose of acquiring a Caterpillar backhoe. Payments are due monthly at an amount of \$930 with the final maturity in fiscal year 2021.

In October 2015, the City entered into a long-term capital lease agreement with the Facilities Solutions Group, Inc. in the amount of \$410,678 at an annual rate of interest of 8.75% for a period of 5 years for the purpose of retrofitting the lighting throughout the City buildings. Payments are due monthly at an amount of \$8,475 with the final maturity in fiscal year 2021.

In September 2016, the City entered into a long-term capital lease agreement with the First National Bank Leasing in the amount of \$4,172 an annual rate of interest of 2.55% for a period of 5 years for the purpose of acquiring a Caterpillar MP bucket. Payments are due monthly at an amount of \$74 with the final maturity in fiscal year 2022.

In September 2016, the City entered into a long-term capital lease agreement with the First National Bank Leasing in the amount of \$181,121 at an annual rate of interest of 2.55% for a period of 5 years for the purpose of acquiring a freightliner and bearcat oil distributor. Payments are due monthly at an amount of \$1,815 with the final maturity in fiscal year 2022.

In September 2016, the City entered into a long-term capital lease agreement with the First National Bank Leasing in the amount of \$3,759 at an annual rate of interest of 2.55% for a period of 5 years for the purpose of acquiring a Caterpillar Grapple Rack. Payments are due monthly at an amount of \$67 with the final maturity in fiscal year 2022.

In September 2016, the City entered into a long-term capital lease agreement with the First National Bank Leasing in the amount of \$48,348 at an annual rate of interest of 2.55% for a period of 5 years for the purpose of acquiring a 239D skid steer. Payments are due monthly at an amount of \$547 and the final residual value of \$20,000 with the final maturity in fiscal year 2022.

In September 2016, the City entered into a long-term capital lease agreement with the First National Bank Leasing in the amount of \$57,045 at an annual rate of interest of 2.55% for a period of 5 years for the purpose of acquiring a 239D skid steer. Payments are due monthly at an amount of \$608 and the final residual value of \$26,000 with the final maturity in fiscal year 2022.

In October 2016, the City entered into a long-term capital lease agreement with the First National Bank Leasing in the amount of \$44,744 at an annual rate of interest of 2.55% for a period of 5 years for the purpose of acquiring a Caterpillar Mini Excavator. Payments are due monthly at an amount of \$436 with the final maturity in fiscal year 2022.

Assets acquired through capital leases are as follows:

Assets	Governmental Activities	Business-type Activities
Machinery and Equipment	\$ 950,819	\$ 304,201
Less: Accumulated Depreciation	(329,627)	(49,383)
Total	<u>\$ 621,192</u>	<u>\$ 254,818</u>

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 7: Long-Term Obligations – continued

Capital Leases – continued

The future minimum lease obligation and the net present value of these minimum lease payments as of September 30, 2017 were as follows.

Year Ended September 30		Governmental Activities	Business-type Activities
2018	\$	160,671	73,236
2019		233,910	73,236
2020		143,245	73,236
2021		122,826	66,907
2022		140,927	23,437
Total minimum lease payments		801,579	310,052
Less amount representing interest		(61,856)	(34,149)
Present value of minimum lease payments		\$ 739,723	275,903

Note 8: Retirement Plans

Plan Description

The City participates as one of 866 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.

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.

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. The City has elected that members can retire at age 60 and above with 5 or more years of service or with 25 years of service regardless of age. The City does not provide supplemental death benefits. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 8: Retirement Plans – continued

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

Inactive employees or beneficiaries currently receiving benefits	69
Inactive employees entitled to but not yet receiving benefits	38
Active employees	<u>87</u>
Total	<u><u>194</u></u>

Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year amounting to \$191,733. The City did not change its employee contribution rate during the year. The contribution rates for the City were 12.62% and 12.24% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$472,652, and were equal to the required contributions.

Net Pension Liability

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

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by a factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, 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. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 8: Retirement Plans – continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without and 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 Real Rate of Return
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the Total Pension Asset 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 Asset.

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balance at 12/31/2015	\$ 15,639,368	\$ 13,010,371	\$ 2,628,997
Changes for the year:			
Service Cost	475,862	-	475,862
Interest	1,044,935	-	1,044,935
Difference between expected and actual experience	95,806	-	95,806
Contributions - employer	-	474,516	(474,516)
Contributions - employee	-	199,209	(199,209)
Net investment income	-	878,678	(878,678)
Benefit payments, including refunds of employee contributions	(793,575)	(793,575)	-
Administrative expense	-	(9,930)	9,930
Other changes	-	(535)	535
Net changes	<u>823,028</u>	<u>748,363</u>	<u>74,665</u>
Balance at 12/31/2016	<u>\$ 16,462,396</u>	<u>\$ 13,758,734</u>	<u>\$ 2,703,662</u>

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 8: Retirement Plans – continued

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 4,804,952	\$ 2,703,662	\$ 972,289

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

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

For the year ended September 30, 2017, the City recognized pension expense of \$480,287.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 273,481
Changes in actual assumptions	70,594	-
Difference between projected and actual investment earnings	636,137	-
Contributions subsequent to the measurement date	357,759	-
Total	\$ 1,064,490	\$ 273,481

\$357,759 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:		
2016	\$	41,510
2017		189,633
2018		202,201
2019		(94)
2020		-
Thereafter		-
	\$	433,250

Supplemental Death Benefits Plan

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees.

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

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 8: Retirement Plans – continued

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

The City's contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$12,500, \$12,658, and \$11,794, respectively, which equaled the required contribution each year.

Note 9: Post-Retirement Health Care Benefits

Plan Description

In addition to providing pension benefits, the City provides certain health care benefits to retired employees under a single-employer defined benefit healthcare plan. The plan does not issue separate financial statements.

The City maintains self-funded medical, prescription drug, dental and vision coverage for eligible employees and retired employees and their dependents. All retirees are eligible to continue their health insurance coverage at the same cost that the City pays for its employees. Thus, in effect, the City is subsidizing the cost of the higher premiums for its retirees. The City also provides \$7,500 in life insurance coverage for its retirees through TMRS. To be eligible for coverage after retirement, employees must be covered as an active employee in the City health program at the time of retirement, reach their 60th birthday and have 5 years of service with the City, or have earned 20 years of TMRS service, and pay a plan premium as set by the City for themselves and their dependents.

Funding Policy

Plan members are required to pay a premium for themselves and their dependents. Currently, the premium for retirees age 64 or younger is \$304 per retiree and an additional premium of \$322 for spouses. For those 65 or older, the current monthly contributions are \$200 (capped) for single coverage and \$375 for retiree and spouse coverage if both are age 65 or older, otherwise the under 65 rate applies.. The plan is financed on a pay-as-you-go basis.

The City's annual OPEB cost is based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents an expense recognition that includes normal cost and the amortization of any unfunded actuarial liabilities over a period not to exceed thirty years.

The City had its OPEB actuarial valuation performed for the fiscal year ending September 30, 2017 as required by GASB. The City's OPEB cost for the current year is as follows:

Annual required contribution	\$	278,696
Interest on OPEB obligation		44,174
Adjustment to ARC		(56,053)
Annual OPEB cost (expense)		266,817
Net employer contributions		(83,437)
Increase (decrease) in net OPEB obligation		183,380
Net OPEB obligation - as of beginning of year		883,488
Net OPEB obligation - as of end of year	\$	1,066,868

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year (5.0% discount rate, and level percent of pay amortization) are on the following page:

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 9: Post-Retirement Health Care Benefits – continued

Fiscal Year Ending	Net Employer Contributions	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation	Annual Required Contribution	Percentage of ARC Contributed
9/30/2015	\$ 76,995	\$ 218,375	35.26%	\$ 690,248	\$ 225,780	34.10%
9/30/2016	76,149	269,389	28.27%	883,488	278,696	27.32%
9/30/2017	83,437	266,817	31.27%	1,066,868	278,696	29.94%

Actuarial methods and assumptions

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Significant methods and assumptions were as follows:

Discount rate	5.00%
Actuarial cost method	Projected Unit Cost Method
Amortization method	Level percent of payroll, 30 years- open period
Salary growth	N/A
Asset valuation method	N/A
Healthcare cost trends	Level 5.00% applied to both cost and contributions

Note 10: Risk Management

The City is exposed to various risks of loss relating to general liability, accidental loss of real and personal property damage to City assets, errors and omissions and personal risks which relate to workers' compensation. The City participates in the Texas Municipal League Intergovernmental Risk Pool (the Pool). As an insured, the City is not obligated to reimburse the Pool for losses. Any losses, reported but unsettled or incurred and not reported, are believed to be insignificant to the City's financial statements.

Commercial insurance is purchased for the other risks of losses to which the City is exposed. There have been no significant reductions in insurance coverage in the current year and settlement amounts have not exceeded insurance coverage for each of the past three years.

Note 11: Working Agreements

In addition to the funds that the City sets aside for perpetual cemetery care in its nonexpendable trust fund, individuals may place money in the trust fund, which revert to those individuals. During the time that the money is held in trust, any income earned may be used for the purposes of the trust. These amounts are designated as working agreements and shown as liabilities of the fund.

Note 12: Deficits in Fund Balance

At September 30, 2017, the General Fund and Graham Airport Fund had deficit fund balances of \$1,879,089 and \$161,697, respectively, due to pending reimbursement.

CITY OF GRAHAM, TEXAS
Notes to the Financial Statements
Year Ended September 30, 2017

Note 13: Commitments and Contingencies

The City participates in numerous federal and state assisted programs. In connection with these grants, the City is required to comply with specific terms and agreements as well as applicable federal and state laws and regulations. Such compliance is subject to review and audit by the grantors and their representatives. In the opinion of management, the City has complied with all requirements. However, since such programs are subject to future audit or review, the possibility of disallowed expenditures exists. In the event of any disallowance of claimed expenditures, the City expects the resulting liability to be immaterial.

Note 14: Prior Period Adjustment

In 2017 it was noted that pooled cash had gone unreconciled. As a result, accounting personnel, along with the help of the software provider, booked adjustments against beginning net position and fund balance, where applicable. During 2017 it was noted that the City had failed to book unbilled revenue in past years for those days not captured in the billing cycle. This resulted in an understatement of net position and fund balance. In 2016 the Police Donations Special Revenue Fund was inadvertently omitted from the financial statements. This resulted in an overstatement of net position and fund balance. In 2017, it was discovered that certain capital leases were recorded in the incorrect funds. The result is as follows.

	General Fund	Nonmajor Funds	Governmental Activities	Water Fund	Sewer Fund	Graham Water Supply District	Water Plant Reserve Fund	Business - Type Activities
As previously stated September 30, 2016	\$ (444,345)	\$ 1,013,890	\$ 8,797,782	\$ 6,535,574	\$ 756,149	\$ 2,209,562	\$ 1,949,195	\$ 11,450,480
Adjustments to pooled cash	103,195	23,072	126,267	(137,437)	10,750	122,722	(134,191)	(138,156)
Unbilled revenue	65,342	-	65,342	123,009	45,814	-	-	168,823
Funds omitted in 2016	-	(3,472)	(3,472)	-	-	-	-	-
Capital leases in wrong funds	-	-	23,492	10,924	(34,416)	-	-	(23,492)
Beginning fund balance October 1, 2016 as restated	<u>\$ (275,808)</u>	<u>\$ 1,033,490</u>	<u>\$ 9,009,411</u>	<u>\$ 6,532,070</u>	<u>\$ 778,297</u>	<u>\$ 2,332,284</u>	<u>\$ 1,815,004</u>	<u>\$ 11,457,655</u>

Note 15: Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

The City will fully analyze the impact of these new statements prior to the effective dates for the Statements listed above.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

CITY OF GRAHAM, TEXAS
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual - General Fund
Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 2,466,100	\$ 2,466,100	\$ 2,108,897	\$ (357,203)
General sales and use taxes	2,000,000	2,000,000	1,817,980	(182,020)
Franchise tax	650,000	650,000	607,670	(42,330)
Other taxes	11,500	11,500	15,178	3,678
Penalty and interest on taxes	25,000	25,000	30,093	5,093
Licenses and permits	52,500	52,500	20,488	(32,012)
Intergovernmental revenue and grants	12,500	12,500	23,445	10,945
Charges for services	2,036,500	2,036,500	1,890,090	(146,410)
Fines	266,800	266,800	219,840	(46,960)
Rents and royalties	66,000	66,000	75,243	9,243
Contributions and donations from private sources	102,500	102,500	123,718	21,218
Other revenue	492,000	492,000	579,356	87,356
Investment earnings	3,000	3,000	2,848	(152)
Total Revenues	8,184,400	8,184,400	7,514,846	(669,554)
EXPENDITURES				
Current				
General government				
Administrative	576,784	576,784	573,840	2,944
Municipal court	212,139	212,139	136,591	75,548
Total general government	788,923	788,923	710,431	78,492
Public safety				
Police	2,055,074	2,055,074	2,079,255	(24,181)
Fire	950,907	950,907	918,810	32,097
Emergency operations	-	-	10,345	(10,345)
Animal control	96,697	96,697	98,728	(2,031)
Code enforcement	124,095	124,095	125,469	(1,374)
Total public safety	3,226,773	3,226,773	3,232,607	(5,834)
Public works				
Streets	798,877	798,877	671,520	127,357
Sanitation	28,158	28,158	25,298	2,860
Refuse disposal	1,514,984	1,514,984	1,752,333	(237,349)
Airport	283,330	283,330	268,345	14,985
Maintenance	302,159	302,159	245,600	56,559
Total public works	2,927,508	2,927,508	2,963,096	(35,588)
Health and welfare				
Ambulance	-	-	35,000	(35,000)
Health and welfare	72,773	72,773	72,415	358
Total health and welfare	72,773	72,773	107,415	(34,642)

CITY OF GRAHAM, TEXAS
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual - General Fund
Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Culture and recreation				
Young County Arena	370,233	370,233	382,315	(12,082)
Auditorium	102,958	102,958	102,554	404
Library	287,027	287,027	274,779	12,248
Swimming pool	93,487	93,487	95,891	(2,404)
Parks and playgrounds	373,220	373,220	394,212	(20,992)
Total culture and recreation	<u>1,226,925</u>	<u>1,226,925</u>	<u>1,249,751</u>	<u>(22,826)</u>
Conservation and development				
Convention visitors bureau	-	-	186	(186)
Main street	-	-	15	(15)
Museum	-	-	14,343	(14,343)
Cemeteries	106,462	106,462	102,987	3,475
Total conservation and development	<u>106,462</u>	<u>106,462</u>	<u>117,531</u>	<u>(11,069)</u>
Debt Service				
Principal	350,563	350,563	441,305	(90,742)
Interest	49,426	49,426	60,556	(11,130)
Capital Outlay	422,061	422,061	263,802	158,259
Total Expenditures	<u>9,171,414</u>	<u>9,171,414</u>	<u>9,146,494</u>	<u>24,920</u>
Deficiency of Revenues Under Expenditures	<u>(987,014)</u>	<u>(987,014)</u>	<u>(1,631,648)</u>	<u>(644,634)</u>
Other Financing Sources (Uses)				
Proceeds of Long-Term Debt	-	-	263,646	263,646
Proceeds from the sale of capital assets	7,500.00	7,500.00	21,482	13,982
Transfers In	323,300	323,300	-	(323,300)
Transfers Out	300,000	300,000	(256,761)	(56,761)
Total Other Financing Sources (Uses)	<u>630,800</u>	<u>630,800</u>	<u>28,367</u>	<u>(602,433)</u>
Change in Fund Balance	(356,214)	(356,214)	(1,603,281)	(1,247,067)
Fund Balance - October 1 (Beginning), restated	<u>(275,808)</u>	<u>(275,808)</u>	<u>(275,808)</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ (632,022)</u>	<u>\$ (632,022)</u>	<u>\$ (1,879,089)</u>	<u>\$ (1,247,067)</u>

CITY OF GRAHAM, TEXAS
 Required Supplementary Information
 Schedule of Funding Progress - OPEB Plans
 Year Ended September 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
CITY OF GRAHAM RETIREE HEALTH CARE OPEB PLAN:						
10/01/11	\$ -	\$ 1,461,344	\$ 1,461,344	0.0%	\$ 3,160,530	46.2%
10/01/13	-	2,079,569	2,079,569	0.0%	3,141,102	66.2%
10/01/15	-	2,432,318	2,432,318	0.0%	4,033,544	60.3%

CITY OF GRAHAM, TEXAS
Schedule Of Changes In Net Pension Liability And Related Ratios
Texas Municipal Retirement System
For The Year Ended September 30, 2017

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Total Pension Liability			
Service cost	\$ 475,862	\$ 406,357	389,665
Interest on total pension liability	1,044,935	1,069,759	1,052,493
Changes of benefit terms	-	-	-
Differences between expected and actual experience	95,806	(531,575)	(276,980)
Change of assumptions	-	58,109	-
Benefit payments/refunds of contributions	<u>(793,575)</u>	<u>(884,741)</u>	<u>(969,011)</u>
Net change in total pension liability	823,028	117,909	196,167
Total pension liability, beginning	<u>15,639,368</u>	<u>15,521,459</u>	<u>15,325,292</u>
Total pension liability, ending (a)	<u>\$ 16,462,396</u>	<u>\$ 15,639,368</u>	<u>15,521,459</u>
Fiduciary Net Position			
Contributions - Employer	\$ 474,516	\$ 425,773	423,351
Contributions - Employee	199,209	173,360	166,020
Net investment income	878,678	19,607	739,976
Benefit payments/refunds of contributions	(793,575)	(884,741)	(969,011)
Administrative expenses	(9,930)	(11,944)	(7,727)
Other	<u>(535)</u>	<u>(590)</u>	<u>(635)</u>
Net change in fiduciary net position	748,363	(278,535)	351,974
Fiduciary net position, beginning	<u>13,010,371</u>	<u>13,288,906</u>	<u>12,936,932</u>
Fiduciary net position, ending (b)	<u>\$ 13,758,734</u>	<u>\$ 13,010,371</u>	<u>13,288,906</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 2,703,662</u>	<u>\$ 2,628,997</u>	<u>2,232,553</u>
Fiduciary net position as a percentage of total pension liability	83.58 %	83.19 %	85.62 %
Pensionable covered payroll	\$ 3,923,017	\$ 3,467,206	3,320,403
Net pension liability as a percentage of covered payroll	68.92 %	75.82 %	67.24 %

CITY OF GRAHAM, TEXAS
 Schedule of Employer Contributions
 Texas Municipal Retirement System
 For Fiscal Year 2016

<u>Year Ending</u> <u>December 31,</u>	<u>Actuarially</u> <u>Determined</u> <u>Contribution</u>	<u>Actual</u> <u>Employer</u> <u>Contribution</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>Pensionable</u> <u>Covered</u> <u>Payroll</u>	<u>Actual Contribution</u> <u>as a Percentage of</u> <u>Covered Payroll</u>
2015	\$ 445,222	\$ 445,222	-	\$ 3,495,041	12.74 %
2016	425,773	425,773	-	3,467,206	12.28 %
2017	474,516	474,516	-	3,923,017	12.10 %

CITY OF GRAHAM, TEXAS
Notes to the Required Supplementary Information
Year Ended September 30, 2017

Note A: Net Pension Liability – Texas Municipal Retirement System

Assumptions

The following methods and assumptions were used to determine contribution rates:

Valuation date	Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation method	10-year smoothed market; 15% soft corridor
Inflation	2.50%
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 2010 – 2014.
Mortality	RP-2000 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.

Changes of Benefit Terms

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

Changes in the Size or Composition of the Population Covered by the Benefit Terms

There were no changes in the size or composition of the population covered by the benefit terms during the measurement period.

Changes of Assumptions

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

COMBINING STATEMENTS AND BUDGETARY COMPARISON SCHEDULES AS SUPPLEMENTARY INFORMATION

The supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CITY OF GRAHAM, TEXAS
 Combining Balance Sheet - Nonmajor Governmental Funds
 September 30, 2017

	21 Christmas Light Fund	22 Park Improvement Fund	23 Young County Arena Fund	24 Hotel Motel Fund
ASSETS				
Cash and cash equivalents	\$ 202	\$ 22,309	\$ (149,938)	\$ 466,674
Investments	-	12,007	-	-
Taxes receivable	-	-	-	-
Allowance for uncollectible taxes	-	-	-	-
Receivables (net)	-	-	-	-
Due from other funds	-	-	241,776	-
Total Assets	<u>\$ 202</u>	<u>\$ 34,316</u>	<u>\$ 91,838</u>	<u>\$ 466,674</u>
LIABILITIES , DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable and other liabilities	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	107,824
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,824</u>
Deferred Inflows of Resources				
Unavailable revenue				
Property taxes	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	-	-	-	358,850
Assigned	202	34,316	91,838	-
Unassigned	-	-	-	-
Total Fund Balances	<u>202</u>	<u>34,316</u>	<u>91,838</u>	<u>358,850</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 202</u>	<u>\$ 34,316</u>	<u>\$ 91,838</u>	<u>\$ 466,674</u>

25 Police Security Fund	26 Community College Fund	28 American Legion Building	29 Police Donation Fund	32 Fire Department Grant	27, 33 Municipal Court Security	34 Municipal Court Technology
\$ 11,578	\$ 3,931	\$ 15,589	4,878	\$ 61	\$ 17,775	\$ 7,383
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 11,578</u>	<u>\$ 3,931</u>	<u>\$ 15,589</u>	<u>\$ 4,878</u>	<u>\$ 61</u>	<u>\$ 17,775</u>	<u>\$ 7,383</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
11,578	-	15,589	4,878	61	17,775	7,383
-	3,931	-	-	-	-	-
-	-	-	-	-	-	-
<u>11,578</u>	<u>3,931</u>	<u>15,589</u>	<u>4,878</u>	<u>61</u>	<u>17,775</u>	<u>7,383</u>
<u>\$ 11,578</u>	<u>\$ 3,931</u>	<u>\$ 15,589</u>	<u>\$ 4,878</u>	<u>\$ 61</u>	<u>\$ 17,775</u>	<u>\$ 7,383</u>

CITY OF GRAHAM, TEXAS
Combining Balance Sheet - Nonmajor Governmental Funds
September 30, 2017

	35, 40 Memorial Auditorium Fund	36 Graham Airport Fund	37 Wal Mart Street Fund	44 Reserve Ser. 1998 Hospital Improvements
ASSETS				
Cash and cash equivalents	\$ 99,040	\$ 31,942	\$ 5,768	\$ 32,002
Investments	-	-	35,021	-
Taxes receivable	-	-	-	-
Allowance for uncollectible taxes	-	-	-	-
Receivables (net)	-	-	-	-
Due from other funds	-	-	-	-
Total Assets	<u>\$ 99,040</u>	<u>\$ 31,942</u>	<u>\$ 40,789</u>	<u>\$ 32,002</u>
LIABILITIES , DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable and other liabilities	\$ 100	\$ -	\$ -	\$ -
Due to other funds	-	193,639	-	31,919
Total Liabilities	<u>100</u>	<u>193,639</u>	<u>-</u>	<u>31,919</u>
Deferred Inflows of Resources				
Unavailable revenue				
Property taxes	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	-	-	-	83
Assigned	98,940	-	40,789	-
Unassigned	-	(161,697)	-	-
Total Fund Balances	<u>98,940</u>	<u>(161,697)</u>	<u>40,789</u>	<u>83</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 99,040</u>	<u>\$ 31,942</u>	<u>\$ 40,789</u>	<u>\$ 32,002</u>

Exhibit C-1

61 Graham Library Fund	53 Main Street Fund	55 Convention and Visitors Bureau	Total Nonmajor Special Revenue Funds	43 G.O. Bond Fund	80 Cemetery Endowment Fund	Total Nonmajor Governmental Funds
\$ 21,211	\$ -	\$ 60,270	\$ 650,675	\$ 251,332	\$ 111,141	\$ 1,013,148
-	-	-	47,028	-	106,183	153,211
-	-	-	-	7,247	-	7,247
-	-	-	-	(1,450)	-	(1,450)
-	-	-	-	-	-	-
-	-	-	241,776	224,050	150,000	615,826
<u>\$ 21,211</u>	<u>\$ -</u>	<u>\$ 60,270</u>	<u>\$ 939,479</u>	<u>\$ 481,179</u>	<u>\$ 367,324</u>	<u>\$ 1,787,982</u>
\$ -	\$ -	\$ -	\$ 100	\$ -	\$ -	\$ 100
-	-	-	333,382	-	-	333,382
-	-	-	333,482	-	-	333,482
-	-	-	-	5,797	-	5,797
-	-	-	-	5,797	-	5,797
-	-	-	-	-	367,324	367,324
21,211	-	60,270	497,678	475,382	-	973,060
-	-	-	270,016	-	-	270,016
-	-	-	(161,697)	-	-	(161,697)
<u>21,211</u>	<u>-</u>	<u>60,270</u>	<u>605,997</u>	<u>475,382</u>	<u>367,324</u>	<u>1,448,703</u>
<u>\$ 21,211</u>	<u>\$ -</u>	<u>\$ 60,270</u>	<u>\$ 939,479</u>	<u>\$ 481,179</u>	<u>\$ 367,324</u>	<u>\$ 1,787,982</u>

CITY OF GRAHAM, TEXAS
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended September 30, 2017

	21 Christmas Light Fund	22 Park Improvement Fund	23 Young County Arena Fund	24 Hotel Motel Fund
REVENUE				
Taxes	\$ -	\$ -	\$ -	\$ 176,472
Charges for services	-	-	-	-
Contributions and donations from private sources	-	-	-	-
Other revenue	-	-	128,825	-
Investment earnings	-	149	-	1,391
Total Revenues	<u>-</u>	<u>149</u>	<u>128,825</u>	<u>177,863</u>
EXPENDITURES				
Current				
General government	-	-	-	-
Culture and recreation	-	-	388	-
Conservation and development	-	-	-	-
Debt Service				
Principal	-	-	120,000	-
Interest	-	-	8,825	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>129,213</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>149</u>	<u>(388)</u>	<u>177,863</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	149	(388)	177,863
Fund Balance - October 1 - Restated	<u>202</u>	<u>34,167</u>	<u>92,226</u>	<u>180,987</u>
Fund Balance - September 30	<u>\$ 202</u>	<u>\$ 34,316</u>	<u>\$ 91,838</u>	<u>\$ 358,850</u>

25 Police Security Fund	26 Community College Fund	28 American Legion Building	29 Police Donations Fund	32 Fire Department Grant	27, 33 Municipal Court Security	34 Municipal Court Technology
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	2,596	2,939
-	-	-	-	-	-	-
2,035	-	-	506	-	-	-
27	9	-	-	-	999	16
<u>2,062</u>	<u>9</u>	<u>-</u>	<u>506</u>	<u>-</u>	<u>3,595</u>	<u>2,955</u>
-	-	-	2,651	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	2,651	-	-	-
<u>2,062</u>	<u>9</u>	<u>-</u>	<u>(2,145)</u>	<u>-</u>	<u>3,595</u>	<u>2,955</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,062	9	-	(2,145)	-	3,595	2,955
9,516	3,922	15,589	7,023	61	14,180	4,428
<u>\$ 11,578</u>	<u>\$ 3,931</u>	<u>\$ 15,589</u>	<u>\$ 4,878</u>	<u>\$ 61</u>	<u>\$ 17,775</u>	<u>\$ 7,383</u>

CITY OF GRAHAM, TEXAS
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended September 30, 2017

	35, 40 Memorial Auditorium Fund	36 Graham Airport Fund	37 Wal Mart Street Fund	44 Reserve Ser. 1998 Hospital Improvements
REVENUE				
Taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Contributions and donations from private sources	-	-	-	-
Other revenue	-	1	-	-
Investment earnings	246	71	283	83
Total Revenues	<u>246</u>	<u>72</u>	<u>283</u>	<u>83</u>
EXPENDITURES				
Current				
General government	-	-	-	-
Culture and recreation	7,460	-	-	-
Conservation and development	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	<u>7,460</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(7,214)</u>	<u>72</u>	<u>283</u>	<u>83</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	8,761	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>8,761</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(7,214)	8,833	283	83
Fund Balance - October 1 - Restated	106,154	(170,530)	40,506	-
Fund Balance - September 30	<u>\$ 98,940</u>	<u>\$ (161,697)</u>	<u>\$ 40,789</u>	<u>\$ 83</u>

61 Graham Library Fund	53 Main Street Fund	55 Conservation and Visitors Bureau	Total Nonmajor Special Revenue Funds	43 G.O. Bond Fund	80 Cemetery Endowment Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 176,472	\$ 224,050	\$ -	\$ 400,522
-	-	-	5,535	-	-	5,535
35,968	-	-	35,968	-	-	35,968
38,619	-	196,663	366,649	-	2,775	369,424
-	-	-	3,274	771	1,086	5,131
<u>74,587</u>	<u>-</u>	<u>196,663</u>	<u>587,898</u>	<u>224,821</u>	<u>3,861</u>	<u>816,580</u>
-	-	-	2,651	1,960	-	4,611
79,126	-	-	86,974	-	-	86,974
-	1,306	311,412	312,718	-	-	312,718
-	-	-	120,000	-	-	120,000
-	-	-	8,825	-	-	8,825
<u>79,126</u>	<u>1,306</u>	<u>311,412</u>	<u>531,168</u>	<u>1,960</u>	<u>-</u>	<u>533,128</u>
<u>(4,539)</u>	<u>(1,306)</u>	<u>(114,749)</u>	<u>56,730</u>	<u>222,861</u>	<u>3,861</u>	<u>283,452</u>
-	-	123,000	131,761	-	-	131,761
-	-	123,000	131,761	-	-	131,761
(4,539)	(1,306)	8,251	188,491	222,861	3,861	415,213
<u>25,750</u>	<u>1,306</u>	<u>52,019</u>	<u>417,506</u>	<u>252,521</u>	<u>363,463</u>	<u>1,033,490</u>
<u>\$ 21,211</u>	<u>\$ -</u>	<u>\$ 60,270</u>	<u>\$ 605,997</u>	<u>\$ 475,382</u>	<u>\$ 367,324</u>	<u>\$ 1,448,703</u>

CITY OF GRAHAM, TEXAS
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual - Water Fund
Year Ended September 30, 2017

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		
OPERATING REVENUES				
Charges for Water Services	\$ 4,637,475	\$ 4,637,475	\$ 3,769,636	\$ (867,839)
Charges for Sewer Services	70,000	70,000	68,420	(1,580)
Rents and Royalties	122,660	122,660	129,339	6,679
Other Revenue	52,778	52,778	3,574	(49,204)
Total Operating Revenues	<u>4,882,913</u>	<u>4,882,913</u>	<u>3,970,969</u>	<u>(911,944)</u>
OPERATING EXPENSES				
Personal Services - Salaries and Wages	680,848	680,848	801,974	(121,126)
Personal Services - Employee Benefits	343,397	343,397	372,389	(28,992)
Purchased Professional and Technical Services	130,350	130,350	239,867	(109,517)
Purchased Property Services	244,248	244,248	256,218	(11,970)
Other Operating Expenses	327,975	327,975	452,190	(124,215)
Supplies	427,278	427,278	384,306	42,972
Depreciation	245,000	245,000	744,485	(499,485)
Debt servie	812,136	812,136	-	812,136
Total Operating Expenses	<u>3,211,232</u>	<u>3,211,232</u>	<u>3,251,429</u>	<u>(40,197)</u>
Operating Income (Loss)	1,671,681	1,671,681	719,540	(952,141)
NON-OPERATING REVENUES (EXPENSES)				
Investment Earnings	7,500	7,500	13,019	5,519
Interest Expense	(706,119)	(706,119)	(615,631)	90,488
Total Non-Operating Revenue (Expenses)	<u>(698,619)</u>	<u>(698,619)</u>	<u>(602,612)</u>	<u>96,007</u>
Income (Loss) Before Transfers	973,062	973,062	116,928	(856,134)
Transfers In	-	-	125,000	125,000
Transfers Out	(250,000)	(250,000)	-	250,000
Change in Net Assets	723,062	723,062	241,928	(481,134)
Net Position - October 1, (restated)	<u>6,532,070</u>	<u>6,532,070</u>	<u>6,532,070</u>	<u>-</u>
Net Position - September 30	<u>\$ 7,255,132</u>	<u>\$ 7,255,132</u>	<u>\$ 6,773,998</u>	<u>\$ (481,134)</u>

CITY OF GRAHAM, TEXAS
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual - Sewer Fund
Year Ended September 30, 2017

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		
OPERATING REVENUES				
Charges for Sewer Services	\$ 1,353,658	\$ 1,353,658	\$ 1,185,277	\$ (168,381)
Other Revenue	-	-	31,629	31,629
Total Operating Revenues	<u>1,353,658</u>	<u>1,353,658</u>	<u>1,216,906</u>	<u>(136,752)</u>
OPERATING EXPENSES				
Personal Services - Salaries and Wages	363,762	363,762	340,872	22,890
Personal Services - Employee Benefits	182,933	182,933	219,131	(36,198)
Purchased Professional and Technical Services	39,310	39,310	39,594	(284)
Purchased Property Services	115,403	115,403	159,269	(43,866)
Other Operating Expenses	148,246	148,246	119,626	28,620
Supplies	238,400	238,400	182,860	55,540
Depreciation	80,000	80,000	99,702	(19,702)
Total Operating Expenses	<u>1,168,054</u>	<u>1,168,054</u>	<u>1,161,054</u>	<u>7,000</u>
Operating Income (Loss)	185,604	185,604	55,852	(129,752)
NON-OPERATING REVENUES (EXPENSES)				
Investment Earnings	3,000	3,000	2,163	(837)
Interest Expense	(22,032)	(22,032)	(12,572)	9,460
Total Non-Operating Revenue (Expenses)	<u>(19,032)</u>	<u>(19,032)</u>	<u>(10,409)</u>	<u>8,623</u>
Income (Loss) Before Transfers	166,572	166,572	45,443	(121,129)
Transfers Out	<u>(250,000)</u>	<u>(250,000)</u>	<u>-</u>	<u>250,000</u>
Change in Net Assets	(83,428)	(83,428)	45,443	128,871
Net Position - October 1, (restated)	<u>778,297</u>	<u>778,297</u>	<u>778,297</u>	<u>-</u>
Net Position - September 30	<u>\$ 694,869</u>	<u>\$ 694,869</u>	<u>\$ 823,740</u>	<u>\$ 128,871</u>

COMPLIANCE SECTION



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

To the Honorable Mayor and
Members of the City Council
City of Graham, Texas:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Graham, Texas (the City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City's basic financial statements and have issued our report thereon dated October 2, 2018.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as finding 2017-A, 2017-B, 2017-C, 2017-D, and 2017-E to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses 2017-G, 2017-H, and 2017-I to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Audit Standards* and which is described in the accompanying schedule of findings and responses as item 2017-F.

City of Graham, Texas' Response to Findings

The City of Graham's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Abilene, Texas
October 2, 2018

CITY OF GRAHAM, TEXAS
 Schedule of Findings and Responses
 Year Ended September 30, 2017

A. Summary of Auditor's Results

Type of auditor's report issued on the financial statements:	Unmodified
Internal control over financial reporting	
Material weakness identified	Finding 2017-A Finding 2017-B Finding 2017-C Finding 2017-D Finding 2017-E
Significant deficiencies identified that are not considered to be material weaknesses	Finding 2017-G Finding 2017-H Finding 2017-I
Noncompliance material to financial statement noted?	Finding 2017-F

B. Findings Related to the Financial Statements which are Required to be Reported in accordance with *Government Auditing Standards*

Finding 2017-A: Financial Reporting

Type of Finding: Material Weakness

Criteria or Specific Requirement: Management of the City is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Statement of Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. Additionally, we recorded approximately 30 audit adjustments to the City's recorded account balances, which if not recorded would have resulted in a material misstatement of the City's financial statements.

Cause: The City does not prepare and has not developed an internal control system to provide for the preparation of the financial statements and related disclosures in a timely manner.

Effect: Although this circumstance is not unusual for an organization of your size, the preparation of financial statements and adjusting journal entries as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by City personnel.

CITY OF GRAHAM, TEXAS
Schedule of Findings and Responses
Year Ended September 30, 2017

B. Findings Related to the Financial Statements which are Required to be Reported in accordance with *Government Auditing Standards – continued*

Recommendations: Auditing standards require that auditors communicate this deficiency; however, the City prepares budgetary and other financial reports for Council review on a routine basis, similar to many smaller governmental entities. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations.

View of Responsible Officials: The finance department does prepare and present financial statements to council on a monthly basis. Procedure includes pulling the balance sheet and financial statement after all journal entries have been recorded and all payables checks are issued and posted in Incode (usually around the 16th of the following month). The finance director compiles the data for the reports and the final report is reviewed by the City Manager prior to submitting for presentation (within the council packet). The financial statements presented and approved by council were not requested by the auditor. Only the question of "Do you provide monthly financials to Council?" and the answer was simply "yes." There have never been accompanying notes to the financial statements. I disagree with this material weakness.

Finding 2017-B: Prior Period Adjustments

Type of Finding: Material Weakness

Criteria or Specific Requirement: Net position was understated in the prior year related to unreconciled cash, understated unbilled receivables and revenues, omitted funds from the prior period financial statements as well as loans being recorded in the incorrect funds.

Statement of Condition: The City had not previously recorded unbilled utilities at year-end, thus understating accounts receivable and revenue. Pooled cash has not been properly reconciled in prior periods and as a result, funds were reconciled, and the difference posted to net position. A special revenue fund was inadvertently omitted from the prior period financial statements. Finally, capital leases were recorded in governmental activities that should have been recorded in the water and sewer funds. Prior period adjustments were made to make these changes and restate the 2016 financial statements.

Cause: The City failed to properly reconcile cash and compare pooled cash to cash recorded in various funds. The city did not properly identify the omission of the special revenue fund or capital leases recorded in incorrect funds.

Effect: Prior and interim financial information was not materially correct, which may affected managements decisions made during the course of the year.

Recommendations: The City should design and implement a reconciliation process for posting unbilled utilities at year-end, as well as reconcile cash loans.

View of Responsible Officials: This finding was also noted in Finding 2016-001. It has been addressed and corrected.

CITY OF GRAHAM, TEXAS
Schedule of Findings and Responses
Year Ended September 30, 2017

B. Findings Related to the Financial Statements which are Required to be Reported in accordance with *Government Auditing Standards* – continued

Finding 2017-C	Cash Reconciliation
Type of Finding:	Material Weakness
Criteria or Specific Requirement:	Cash should be reconciled each month
Statement of Condition:	Pooled cash had not been appropriately reconciled to cash recorded in the funds. As a result, cash was misstated and the outage was required to be recorded through net position since the outage was unknown.
Cause:	There was significant turnover in the accounting department. Accounting personnel, responsible for reconciling cash, had not been properly trained and did not understand the complexities of pooled cash or the need for pooled cash to be reconciled to the cash recorded in the funds.
Effect:	Certain general ledger accounts were misstated as a result of the failure to post certain transactions, as a result, prior period adjustments were required to reconcile cash.
Recommendations:	A cash reconciliation that reconciles from the bank balance to the general ledger balance of pooled cash and cash recorded in the funds should be prepared and reviewed monthly to determine that all cash transactions have been recorded properly. All outages should be researched to determine the proper disposition and posting of reconciling items.
View of Responsible Officials:	This finding was also noted in Finding 2016-001. It has been addressed and corrected.
Finding 2017-D:	Reconciliation of Fund Balance, Long-Term Obligations, and Capital Assets
Type of Finding:	Material Weakness
Criteria or Specific Requirement:	Fund Balance, long-term obligations and capital assets should be reconciled at the end of the fiscal year, at a minimum.
Statement of Condition:	The City does not have a process for the preparation of the reconciliation of the fund balance, long-term obligations and capital assets. If not reconciled, the financial statements could result in a material misstatement.
Cause:	Fund balance, long-term obligations and capital assets are not reconciled at year end.
Effect:	The lack of reconciliations of fund balance, long-term obligations and capital assets increases the risk of material misstatement in the financial statements for these areas, either due to error or fraud. Significant audit adjustments were proposed to properly state these accounts.
Recommendations:	The City should design and implement a reconciliation process for fund balance, long-term obligations, and capital assets.

CITY OF GRAHAM, TEXAS
Schedule of Findings and Responses
Year Ended September 30, 2017

B. Findings Related to the Financial Statements which are Required to be Reported in accordance with *Government Auditing Standards* – continued

View of Responsible Officials: We were not aware of this requirement and will seek guidance from a consultant to ensure this is addressed and corrected.

Finding 2017-E: Reconciliations of Subsidiary Ledgers and Internal Balances

Type of Funding: Material Weakness

Criteria or Specific Requirement: Effective internal control and accounting practices require subsidiary ledgers to be reconciled to the general ledger on a monthly basis.

Statement of Condition: Reconciliations are not prepared and reviewed on a monthly basis for accounts payable, accounts receivables, and internal balances.

Cause: Reconciliations are not completed on a monthly basis.

Effect: Certain general ledger accounts were misstated as a result of transactions being recorded in only one fund, but not the corresponding fund.

View of Responsible Officials: Do not understand. Will seek guidance from a consultant to ensure this is addressed and corrected.

Finding 2017-F Actual Expenditures in Excess of Budget

Type of Funding: Noncompliance

Criteria or Specific Requirement: State law requires that cities adopt a budget prior to expenditures of funds and make proper amendments when the original budget is insufficient.

Statement of Condition: For the General Fund, expenditures exceeded budget by \$5,834 for public safety, \$35,588 for public works, \$34,642 for health and welfare, \$22,826 for culture and recreation, and \$11,069 for conservation and development.

Cause: The City failed to update its budgeted expenditures; the General Fund had actual expenditures in excess of the legally budgeted amounts.

Effect: Due to the failure to update its procedures for monitoring actual and budgeted expenditures. The City should properly amend its budget to reflect actual events and needs as they occur.

Views of Responsible Officials: Overspending and lack of information provided to finance department for budget amendments to be presented to council and processed.

Finding 2017-G: Review and Approval of Journal Entries

Type of Finding: Significant Deficiency

Criteria or Specific Requirement: Journal entries should be reviewed and approved prior to posting.

Statement of Condition: The City does not have an internal control process for the review and approval of journal entries. The oversight provided by an effective review and approval process is important to the City as a result of the limited segregation of duties that exists due to the size of the accounting staff.

CITY OF GRAHAM, TEXAS
Schedule of Findings and Responses
Year Ended September 30, 2017

B. Findings Related to the Financial Statements which are Required to be Reported in accordance with *Government Auditing Standards* – continued

Cause: Journal entries are not reviewed and approved prior to posting.

Effect: The lack of a review and approval process for recorded journal entries increases the risk of material misstatement in the financial statements, either due to error or fraud.

Recommendations: An employee other than the employee preparing the journal entries should review and approve the journal entries before posting.

View of Responsible Officials: This finding was verbally addressed to finance personnel during the auditor’s visit for field work. Journal entries are put into Incode by the Assistance Finance Director. The Finance Director reviews the entries, approves entries on Incode, prints the entries, and initials the paper entries. The Assisant Finance Director posts the entries in Incode, stamps the paper entries “Posted” and initials. This process was put into place and then explained to the auditor by the Finance Director.

Finding 2017-H Special Revenue Funds

Type of Finding Significant Deficiency

Criteria or Specific Requirement: All funds and cash accounts for which the City has ultimate responsibility should be included in the accounting system should be posted regularly.

Statement of Condition Two special revenue funds are not recorded in the Encode accounting system: Convention and Visitors Bureau and the Library Fund.

Cause: These funds are kept in different accounting systems and the activity for those is accounted for by employees outside of the finance department.

Effect: There is an increased risk of error or transactions not being recorded in the City’s financial systems.

Recommendations: The City should include these funds in their accounting software and cash for those funds should be reconciled and verified by those in the finance department.

View of Responsible Officials: This finding is confusing. During the auditor field work, the finance department was told to stop making Incode entries for the Library. There was no mention of the CVB. These accounts have always been recorded outside of the city finance department. However, the bank statements and finacial statements are always provided for auditor review.

Finding 2017-I Property Tax Allocation

Type of Finding Significant Deficiency

Criteria or Specific Requirement According to City Ordinance NO. 1054 Ad Valorem Tax should be allocated to the General Fund for 90.59% and the General Obligation Fund 9.41%.

Statement of Condition: It was noted in the current year that all Ad Valorem Tax revenue is being recorded in the General Fund.

CITY OF GRAHAM, TEXAS
Schedule of Findings and Responses
Year Ended September 30, 2017

B. Findings Related to the Financial Statements which are Required to be Reported in accordance with *Government Auditing Standards* – continued

Cause:	The Tax Assessor Collector was not informed of the allocation and as such has deposited all tax collections to the General Fund.
Effect:	The General Obligation Fund is understated by tax revenues for the current year.
Recommendation:	The City should apportion tax revenue in accordance with the adopted Tax Levy Ordinance, or the Ordinance should be revised to reflect the intention of the receipt of tax revenues.
Views of Responsible Officials:	This finding has been addressed. The appraisal district employee stopped making the separate deposits and combined them. The Assistant Finance Director identified this finding and has worked with the appraisal district to ensure to funds are allocated correctly.

CITY OF GRAHAM, TEXAS
Schedule of Status of Prior Year Findings
Year Ended September 30, 2017

A. Findings Related to Financial Statements which are Required to be Reported in Accordance with *Government Audit Standards*

Finding 2016-001

Cash and Investment Reconciliations

Type of Finding:

Material Weakness

Criteria or Specific Requirement:

Effective internal control and accounting practices require cash and investments to be reconciled to statements on a monthly basis.

Statement of Condition:

The City has not reconciled cash and investments and as a result, several journal entries were required to correctly reflect the activity of the City.

Cause:

There was significant turnover in the accounting department. The new general ledger clerk, responsible for reconciling cash, had not been properly trained and did not understand the complexities of pooled cash and investments.

Effect:

Certain general ledger accounts were misstated as a result of the failure to post certain transactions.

Recommendations:

A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared and reviewed monthly by the finance director to determine that all cash transactions have been recorded properly. All outages should be researched to determine the proper disposition and posting of reconciling items.

A formalized reconciliation should be initiated that reconciles investment accounts from investment statements to the general ledger monthly. As with all reconciliations, the investment reconciliation should be prepared and reviewed by individuals who do not initiate and post transactions to the general ledger systems.

Managements' Response:

We were posting offset entries that were carry-overs to General Fund-Miscellaneous Revenue (10-46001). The previous audit identified this and our resolution was to create General Fund-Bank Recon Offsets (10-46053) to post the offset entries that would keep the offsets out of the Miscellaneous Revenue GL. The majority of carry-overs are from credit card transactions that have a delay in posting to the bank. Once all funds are deposited by ACH and posted, the offsets are cleared out of the Bank Recon Offsets GL.

Current Status:

The City has implemented a reconciliation process for investments. In regards to the cash reconciliation see Finding 2017-C.

Finding 2016-002

Subsidiary Ledger Reconciliations

Type of Finding:

Significant Deficiency

Criteria or Specific Requirement:

Effective internal control and accounting practices require subsidiary ledgers to be reconciled to the general ledger.

Statement of Condition:

During the course of our audit, it was noted that several subsidiary ledgers, including accounts payable and accounts receivable, were not reconciled to the general ledger.

CITY OF GRAHAM, TEXAS
Schedule of Status of Prior Year Findings
Year Ended September 30, 2017

A. Findings Related to Financial Statements which are Required to be Reported in Accordance with *Government Audit Standards – continued*

Finding 2016-002

Subsidiary Ledger Reconciliations – continued

Cause: Reconciliations are not completed on a monthly basis for accounts payable and accounts receivable.

Effect: Certain general ledger accounts were misstated as a result of the failure to reconcile subsidiary ledgers to the general ledger.

Recommendation: The City should adopt a policy requiring monthly reconciliation of all balance sheet accounts to subsidiary ledgers in order to ensure the accuracy of the monthly financial statements and underlying subsidiary ledgers. Subsidiary ledger reconciliations quickly identify errors and needed corrections. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed. Any reconciling differences should be investigated and corrected before the books are closed for the month.

Management's Response: The City agrees with the finding and the recommendation to perform reconciliations of the subsidiary ledgers on a monthly basis.

Current Status: See Finding 2017-E

Finding 2016-0003

Reconciliations of Internal Balances

Type of Finding: Significant Deficiency

Criteria of Specific Requirement: Effective internal control and accounting practices require internal balances (due to / due from and transfers) to be reconciled each month to determine that these accounts net to zero.

Statement of Condition: During the course of our audit, it was noted that internal balances (due to / due froms and transfers in /out) were not reconciled, resulting in out-of-balance due to / from accounts and transfers in / out accounts.

Cause: Reconciliations are not completed on a monthly basis.

Effect: Certain general ledger accounts were misstated as a result of the transaction being recorded in only one fund, but not in the corresponding fund.

Recommendation: The City should adopt a policy requiring monthly reconciliation of all internal balances (due to / due froms and transfers in / out). If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed. Any reconciling differences should be investigated and corrected before the books are closed for the month.

Management's Response: The City agrees with the finding and the recommendation to perform reconciliations of internal balances on a monthly basis.

Current Status: See Finding 2017-E

CITY OF GRAHAM, TEXAS
Schedule of Status of Prior Year Findings
Year Ended September 30, 2017

A. Findings Related to Financial Statements which are Required to be Reported in Accordance with *Government Audit Standards – continued*

Finding 2016-0004

Reconciliation of Long-Term Debt Accounts

Type of Finding:

Significant Deficiency

Criteria of Specific Requirement:

Effective internal control and accounting practices require that long-term debt accounts be reconciled and that all obligations be recorded in the general ledger. Business-type activities, such as the water and sewer funds, should record all new debt as liabilities and payments should be posted against these liabilities with a corresponding expense to interest. Governmental activities should record all new debt as a revenue item – proceeds from long-term debt, and payments should be recorded as debt service expenditures – principal and interest. Further, debt for governmental funds should be tracked separately to ensure all agreements are recorded properly.

Statement of Condition:

During the course of our audit, it was noted that several long-term debt agreements (note agreements with local banks and capital leases with financing companies) were executed by the City which were not properly recorded in the general ledger system. In the current year, through review of general ledger transactions, it was discovered there were eight capital leases that were not recorded as long-term debt. Also, extinguishment of debt in the business-type activities is being recorded as expenditures in the water and sewer funds rather than reduction of the long-term debt balances on the balance sheet.

Cause:

Reconciliations are not completed on a monthly basis, and there is a lack of understanding in the accounting department as to the proper classification and recording of long-term debt.

Effect:

Several general ledger accounts were misstated as a result of the transactions being recorded incorrectly.

Recommendation:

The City should adopt a policy requiring monthly reconciliation of all long-term debt accounts, both in the business-type funds and the governmental funds. The City should also keep accurate records of all notes and leases entered into.

Management's Response:

The City agrees with the finding and the recommendation to properly record long-term debt and perform reconciliations of long-term debt accounts on a monthly basis.

Current Status:

See Finding 2017-D

Finding 2016-0005

Reconciliations of Fixed Asset Accounts

Type of Finding

Significant Deficiency

Criteria or Specific Requirement:

Effective internal control and accounting practices require that fixed assets be reconciled to the fixed asset schedules and all additions and deletions be recorded on the general ledger. Fixed asset additions in the business-type funds should be recorded as assets when purchased; fixed asset additions in the governmental funds should be recorded as capital outlay expenditures. All fixed asset additions should be tracked in the form of a depreciation schedule.

CITY OF GRAHAM, TEXAS
Schedule of Status of Prior Year Findings
Year Ended September 30, 2017

A. Findings Related to Financial Statements which are Required to be Reported in Accordance with *Government Audit Standards* – continued

Finding 2016-0005

Reconciliations of Fixed Asset Accounts – continued

Statement of Condition:

Fixed assets are maintained in a fixed asset system by Davis Kinard as a non-attest service. However, the City does not notify the firm of additions or deletions or make efforts to reconcile the general ledger accounts to these records.

Cause:

Reconciliations are not completed on a monthly basis, and there a lack of understanding in the accounting department as to the proper classification, recording and reconciliation of fixed assets.

Effect:

Several general ledger accounts were misstated as a result of the transactions being recorded incorrectly.

Recommendation:

The City should adopt a policy requiring monthly reconciliation of all fixed asset accounts, both in the business-type funds and the governmental funds.

Management's Response:

The City agrees with the finding and the recommendation to properly record fixed assets and perform reconciliations of fixed assets on a monthly basis.

Current Status:

See Finding 2017-D