



City of Tatum
TEXAS

**FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2019**

**CITY OF TATUM, TEXAS
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FOR THE YEAR ENDED JUNE 30, 2019**

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David K. Godwin

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council
City of Tatum, Texas

Report on the Financial Statements

I 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 Tatum, Texas as of and for the year ended June 30, 2019, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 of Tatum, Texas, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows and respective budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 3 through 11, budgetary comparison information, on page 21, and the Texas Municipal Retirement System schedules, on pages 52 through 54, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 9, 2019, on my consideration of the City of Tatum, Texas' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Tatum, Texas' internal control over financial reporting and compliance.



David K. Godwin
Certified Public Accountant

Tyler, Texas
December 9, 2019

Management's Discussion and Analysis

City of Tatum

CITY HALL

AC 903-947-2260

680 CRYSTAL FARMS ROAD

P.O. BOX 1105

TATUM, TEXAS 75691

Management's Discussion and Analysis For Year Ended June 30, 2019 (Unaudited)

Mayor and Council

Clay Lassen
Mayor

Jack York
Alderman Place #1

Jeff Keller
Alderman Place #2

Tate R. Smith
Alderman Place #3

Dana Buddecke
Mayor Pro-tem
Alderman Place #4

Kim R. Smith
Alderman Place #5

The Management Discussion and Analysis of the City of Tatum's (City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2019. Please read in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

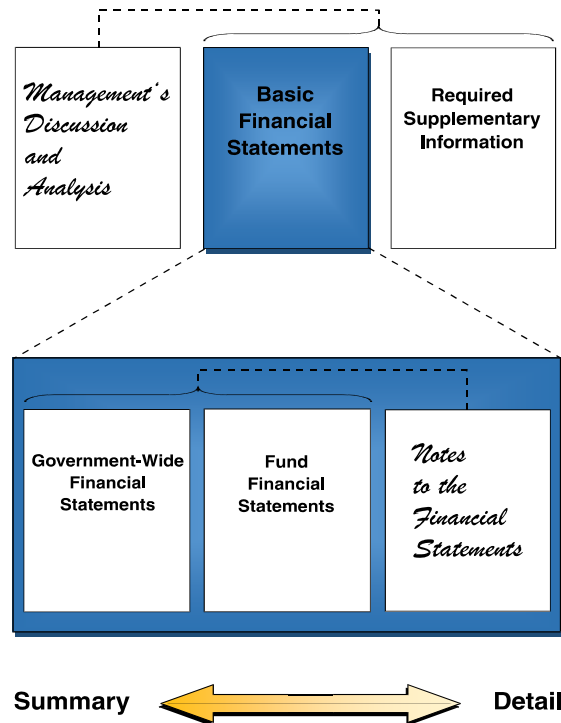
- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$3,644,960 (Net Position). Of this amount, \$1,291,668 (Unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net position decreased by \$192,917.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$721,905. Of this amount, \$668,344 is unassigned and available for use within the City's fund designation and fiscal policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$668,344, or 105% of the total general fund expenditures.
- The City's long-term debt increased by \$32,281 due to pension liability increases during 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City’s annual report consists of a series of financial statements, notes to those statements, and other 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 financial information about the internal service fund used to report activities that provide services to organizations within the City.

Figure A-1 Required Components of the City’s Annual Financial Report



The basic financial statements include notes that explain information contained within 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. Figure A-1 (above) shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 (next page) summarizes the major features of the City’s financial statements, including the portion of the City’s government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**FIGURE A-2
MAJOR FEATURES OF THE CITY'S GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

<i>Type of Statement</i>	Government-Wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses: Wastewater
<i>Required financial statements</i>	• Statement of net position	• Balance sheet	• Statement of net position
	• Statement of activities	• Statement of revenues, expenditures and changes in fund balances	• Statement of revenues, expenses and changes in fund net position • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of flow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

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, you need to consider additional non-financial factors such as changes in the City's tax base.

The Government-Wide Financial Statements of the City include the governmental activities. The City's basic activities include general government, public safety, emergency services, highways and streets, public services, and culture and recreation. Fines, forfeitures and taxes finance most of these activities.

Fund Financial Statements

The Fund Financial Statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices used by the City to track specific sources and uses of funding for specified activities.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two types of funds:

- **Governmental funds**—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the year-end balances that are available for spending. Consequently, the Governmental Fund Statements provide a detailed short-term view that helps you determine the level of financial resources that can be spent in the near term to finance the City's programs. Because this information does not encompass the additional long-term focus of the Government-Wide Statements, we provide additional information at the bottom of the Governmental Fund Statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary funds**—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the Government-Wide Statements, provide both long-term and short-term financial information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$3,644,960 as of June 30, 2019.

The largest portion of the City's net position, 63%, or \$2,299,731, reflects its investments in capital assets (e.g., land, building, equipment, vehicles, improvements and infrastructure), less any outstanding debt used in acquiring those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to repay these liabilities.

CITY OF TATUM'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	\$ 790,470	\$ 912,577	\$ 669,701	\$ 699,781	\$ 1,460,171	\$ 1,612,358
Capital Assets	507,448	486,154	1,792,283	1,847,025	2,299,731	2,333,179
Total Assets	<u>1,297,918</u>	<u>1,398,731</u>	<u>2,461,984</u>	<u>2,546,806</u>	<u>3,759,902</u>	<u>3,945,537</u>
Total Deferred Outflows of Resources	<u>19,031</u>	<u>(3,926)</u>	<u>6,840</u>	<u>(2,484)</u>	<u>25,871</u>	<u>(6,410)</u>
Non-Current Liabilities	26,176	3,219	31,141	21,817	57,317	25,036
Other Liabilities	27,699	30,793	11,919	9,046	39,618	39,839
Total Liabilities	<u>53,875</u>	<u>34,012</u>	<u>43,060</u>	<u>30,863</u>	<u>96,935</u>	<u>64,875</u>
Total Deferred Inflows of Resources	<u>31,708</u>	<u>26,372</u>	<u>12,170</u>	<u>10,003</u>	<u>43,878</u>	<u>36,375</u>
Net Position:						
Invested in Capital Assets, Net of Related Debt	507,448	486,154	1,792,283	1,847,025	2,299,731	2,333,179
Restricted	53,561	47,041	-	-	53,561	47,041
Unrestricted	<u>670,357</u>	<u>801,226</u>	<u>621,311</u>	<u>656,431</u>	<u>1,291,668</u>	<u>1,457,657</u>
Total Net Position	<u>\$ 1,231,366</u>	<u>\$ 1,334,421</u>	<u>\$ 2,413,594</u>	<u>\$ 2,503,456</u>	<u>\$ 3,644,960</u>	<u>\$ 3,837,877</u>

A small portion of net position, \$53,561, is restricted by the Texas controlled substance act and for use by the municipal court. The remaining balance of unrestricted net position, \$1,291,668, may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2019, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its business-type activities. In the prior fiscal year, the City also reported positive balances in all three categories of net position.

Analysis of the City's Operations - Overall the City had a decrease in net position of \$192,917.

Governmental Activities: Net position for the governmental activities decreased by \$103,055. Net position invested in capital assets, net of related debt, increased by \$21,294 due to capital asset additions exceeding depreciation expenses and debt payments. The remaining change in net position is due to lower than expected revenue collections.

Total revenues for the governmental activities decreased from the previous year by \$70,145, primarily due to lower sales tax and fines & forfeitures cash receipts during the year. General revenue decreased \$85,969 during 2019, primarily due to similar activity.

Business-type Activities: Net position from business-type activities decreased by \$89,862. This decrease was primarily due to capital asset purchases along with typical depreciation and supporting costs associated with the water and sewer production and processing in 2019.

The following table provides a summary of the City's operations for the year ended June 30, 2019, with comparative totals for the year ended June 30, 2018.

CITY OF TATUM'S CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Operating Revenues:						
Charges for Services	\$ 53,473	\$ 37,203	\$ 389,043	\$ 396,772	\$ 442,516	\$ 433,975
Other	1,240	1,686	-	251,077	1,240	252,763
General Revenues:						
Taxes	396,068	449,705	-	-	396,068	449,705
Fines & Forfeitures	53,236	77,709	-	-	53,236	77,709
Miscellaneous	10,727	18,586	2,036	2,236	12,763	20,822
Total Revenues	514,744	584,889	391,079	650,085	905,823	1,234,974
Expenses:						
General Government	618,503	619,524	-	-	618,503	619,524
Water and Sewer	-	-	485,798	420,702	485,798	420,702
Total Expenses	618,503	619,524	485,798	420,702	1,104,301	1,040,226
Increase (Decrease) in Total Revenues	(103,759)	(34,635)	(94,719)	229,383	(198,478)	194,748
NONOPERATING REVENUES (EXPENSES)						
Interest Income	704	821	4,857	2,831	5,561	3,652
Interest Expense	-	-	-	-	-	-
Total Non-operating Revenue (Expense)	704	821	4,857	2,831	5,561	3,652
Change in Net Position	(103,055)	(33,814)	(89,862)	232,214	(192,917)	198,400
Net Position – Beginning	1,334,421	1,368,235	2,503,456	2,271,242	3,837,877	3,639,477
Net Position – Ending	\$ 1,231,366	\$ 1,334,421	\$ 2,413,594	\$ 2,503,456	\$ 3,644,960	\$ 3,837,877

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$721,905; of this total amount, \$668,344, constitutes a surplus in unassigned fund balance.

In the general fund, the City’s original budget planned for a decrease in the fund balance on a budget basis.

Actual revenues in all categories were lower than the final budgeted amounts by a total of \$20,328. Actual expenditures not including transfers were higher than final budgeted amounts by a total of \$47,821.

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

CAPITAL ASSETS

The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounts to \$2,299,731 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, equipment, improvements, vehicles, and infrastructure. The total decrease in capital assets for the current fiscal year was \$33,448, or 1.4%.

Major capital asset additions during fiscal year 2019 included \$68,186 for upgrades and \$24,931 for equipment utilized for operations of the City’s waterworks system. Additionally, infrastructure purchases for re-pavement of City streets amounted to \$66,882.

CAPITAL ASSETS AT YEAR-END AND ACCUMULATED DEPRECIATION

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 20,496	\$ 20,496	\$ 79,993	\$ 79,993	\$ 100,489	\$ 100,489
Construction in Progress	-	-	-	-	-	-
Buildings & Improvements	651,961	651,961	13,283	13,283	665,244	665,244
Equipment	327,025	327,025	514,537	489,606	841,562	816,631
Infrastructure	195,477	128,595	-	-	195,477	128,595
Park Improvements	12,723	12,723	-	-	12,723	12,723
Vehicles	116,875	116,875	92,497	92,497	209,372	209,372
Waterworks System	-	-	5,507,347	5,439,161	5,507,347	5,439,161
Accumulated Depreciation	<u>(817,109)</u>	<u>(771,521)</u>	<u>(4,415,374)</u>	<u>(4,267,515)</u>	<u>(5,232,483)</u>	<u>(5,039,036)</u>
Total	<u>\$ 507,448</u>	<u>\$ 486,154</u>	<u>\$ 1,792,283</u>	<u>\$ 1,847,025</u>	<u>\$ 2,299,731</u>	<u>\$ 2,333,179</u>

Additional information on the City’s capital assets can be found in Note 2 on pages 36 and 37 in the notes of this report.

DEBT ADMINISTRATION

At the end of the current and prior fiscal years, the City had no bonded debt.

Additional information on the City's long term-debt can be found in Note 2 on page 38 in the notes of this report.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City of Tatum, Attn: City Secretary at 680 Crystal Farms Road, Tatum, Texas 75691, or call (903) 947-2260.

Basic Financial Statements

Government-Wide Financial Statements

CITY OF TATUM, TEXAS
STATEMENT OF NET POSITION
JUNE 30, 2019

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	TEDCO
ASSETS				
Cash and cash equivalents	\$ 702,901	\$ 632,380	\$ 1,335,281	\$ 238,042
Investments	-	-	-	101,899
Receivables (net of allowances):				
Sales taxes	36,457	-	36,457	14,583
Property taxes	40,867	-	40,867	-
Franchise taxes	8,814	-	8,814	-
Fines and forfeitures	1,431	-	1,431	-
Other	-	37,321	37,321	-
Capital assets:				
Land and other non-depreciated assets	20,496	79,993	100,489	167,496
Other capital assets - net of depreciation	486,952	1,712,290	2,199,242	22,649
Total assets	1,297,918	2,461,984	3,759,902	544,669
DEFERRED OUTFLOWS OF RESOURCES				
Contributions to pensions subsequent to the measurement date	9,802	3,980	13,782	-
Differences between projected and actual investment earnings on pensions	9,229	2,860	12,089	-
Total deferred outflows of resources	19,031	6,840	25,871	-
LIABILITIES				
Accounts payable and accrued liabilities	27,699	11,919	39,618	332
Long-term liabilities:				
Due within one year	-	-	-	-
Due in more than one year	26,176	31,141	57,317	-
Total liabilities	53,875	43,060	96,935	332
DEFERRED INFLOWS OF RESOURCES				
Differences between expected and actual economic experience on pensions	24,328	9,573	33,901	-
Differences between projected and actual investment earnings on pensions	7,380	2,597	9,977	-
Total deferred inflows of resources	31,708	12,170	43,878	-
NET POSITION				
Investment in capital assets, net of related debt	507,448	1,792,283	2,299,731	190,145
Restricted under Texas controlled substance act	200	-	200	-
Restricted for municipal court	53,361	-	53,361	-
Restricted purpose of donor and trustee	-	-	-	300
Unrestricted	670,357	621,311	1,291,668	353,892
Total net position	\$ 1,231,366	\$ 2,413,594	\$ 3,644,960	\$ 544,337

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

**CITY OF TATUM, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

FUNCTIONS / PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			COMPONENT UNIT
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Primary government:							
Governmental activities:							
Administration	\$ 147,126	\$ 186	\$ -	\$ (146,940)	\$ -	\$ (146,940)	
Police department	388,090	53,287	1,240	(333,563)	-	(333,563)	
Municipal court	51,496	53,236	-	1,740	-	1,740	
Emergency services	4,008	-	-	(4,008)	-	(4,008)	
Highways and streets	8,457	-	-	(8,457)	-	(8,457)	
Parks and recreation	19,326	-	-	(19,326)	-	(19,326)	
Total governmental activities	618,503	106,709	1,240	(510,554)	-	(510,554)	
Business-type activities:							
Waterworks	485,798	389,043	-	-	(96,755)	(96,755)	
Total business-type activities	485,798	389,043	-	-	(96,755)	(96,755)	
Total primary government	\$ 1,104,301	\$ 495,752	\$ 1,240	\$ (510,554)	\$ (96,755)	\$ (607,309)	
Component unit:							
Tatum Economic Development Corporation	\$ 41,343	\$ 4,617	\$ -				\$ (36,726)
Total component unit	\$ 41,343	\$ 4,617	\$ -				\$ (36,726)
General revenues:							
Sales taxes				193,822	-	193,822	77,529
Property taxes				148,900	-	148,900	-
Franchise taxes				53,346	-	53,346	-
Hotel taxes				-	-	-	16,760
Investment earnings				704	4,857	5,561	2,021
Miscellaneous local and intermediate revenue				10,727	2,036	12,763	217
Total general revenues and transfers				407,499	6,893	414,392	96,527
Change in net position				(103,055)	(89,862)	(192,917)	59,801
Net position - beginning				1,334,421	2,503,456	3,837,877	484,536
Net position - ending				\$ 1,231,366	\$ 2,413,594	\$ 3,644,960	\$ 544,337

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

Fund Financial Statements

**CITY OF TATUM, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	<u>MAJOR FUND</u>	
	GENERAL FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS		
Cash	\$ 702,901	\$ 702,901
Receivables (net of allowances):		
Sales taxes	36,457	36,457
Property taxes	40,867	40,867
Franchise taxes	8,814	8,814
Fine and forfeitures	<u>1,431</u>	<u>1,431</u>
 Total assets	 <u>\$ 790,470</u>	 <u>\$ 790,470</u>
 LIABILITIES		
Accounts payable	<u>\$ 27,699</u>	<u>\$ 27,699</u>
 Total liabilities	 <u>27,699</u>	 <u>27,699</u>
 DEFERRED INFLOWS (OF RESOURCES)		
Property taxes	<u>40,866</u>	<u>40,866</u>
 Total deferred inflows	 <u>40,866</u>	 <u>40,866</u>
 FUND BALANCES		
Restricted fund balance:		
Texas controlled substance act	200	200
Municipal court technology	19,076	19,076
Municipal court security	34,285	34,285
Unassigned fund balance	<u>668,344</u>	<u>668,344</u>
 Total fund balances	 <u>721,905</u>	 <u>721,905</u>
 Total liabilities, deferred inflows and fund balances	 <u>\$ 790,470</u>	 <u>\$ 790,470</u>

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

**CITY OF TATUM, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Total fund balances - governmental funds	\$ 721,905
Capital assets used in governmental activities are not financial resources and, therefore, are not reported on the governmental funds balance sheet.	507,448
Long-term liabilities are not due and payable in the current period and, therefore, are not reported on the governmental funds balance sheet.	(26,176)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	(12,677)
Delinquent property taxes receivable is a long-term asset and not available to pay for current period expenditures and therefore is deferred in the funds.	<u>40,866</u>
Net position of governmental activities	<u>\$ 1,231,366</u>

CITY OF TATUM, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>MAJOR FUND</u>	<u>TOTAL</u>
	<u>GENERAL</u> <u>FUND</u>	<u>GOVERNMENTAL</u> <u>FUNDS</u>
REVENUES		
Taxes:		
Sales	\$ 193,822	\$ 193,822
Property	172,624	172,624
Franchise	53,346	53,346
Fines and forfeitures	53,236	53,236
Licenses and permits	186	186
Contributions	1,240	1,240
Charges for services	53,287	53,287
Interest income	704	704
Miscellaneous	10,727	10,727
	<u>539,172</u>	<u>539,172</u>
Total revenues		
	<u>539,172</u>	<u>539,172</u>
EXPENDITURES		
Administration	139,528	139,528
Police department	367,887	367,887
Municipal court	50,705	50,705
Emergency services	847	847
Highways and streets	70,527	70,527
Parks and recreation	4,967	4,967
	<u>634,461</u>	<u>634,461</u>
Total expenditures		
	<u>634,461</u>	<u>634,461</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(95,289)</u>	<u>(95,289)</u>
Net change in fund balances	(95,289)	(95,289)
Fund balances - beginning of year	<u>817,194</u>	<u>817,194</u>
Fund balances - end of year	<u>\$ 721,905</u>	<u>\$ 721,905</u>

CITY OF TATUM, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	\$ (95,289)
The depreciation of capital assets used in governmental activities is not reported in the funds.	(45,588)
Net delinquent property tax collections provide current financial resources to the funds (but has no effect on net assets).	(23,724)
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide statement of activities.	66,882
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(5,336)</u>
Change in net position of governmental activities	<u><u>\$ (103,055)</u></u>

**CITY OF TATUM, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		(UNFAVORABLE)
REVENUES				
Taxes:				
Sales	\$ 207,000	\$ 207,000	\$ 193,822	\$ (13,178)
Property	165,000	165,000	172,624	7,624
Franchise	50,000	50,000	53,346	3,346
Fines and forfeitures	79,000	79,000	53,236	(25,764)
Licenses and permits	1,500	1,500	186	(1,314)
Contributions	-	-	1,240	1,240
Charges for services	57,000	57,000	53,287	(3,713)
Interest income	-	-	704	704
Miscellaneous	-	-	10,727	10,727
	<u>559,500</u>	<u>559,500</u>	<u>539,172</u>	<u>(20,328)</u>
EXPENDITURES				
Administration	145,759	145,759	139,528	6,231
Police department	380,372	380,372	367,887	12,485
Municipal court	56,389	56,389	50,705	5,684
Emergency services	620	620	847	(227)
Highways and streets	-	-	70,527	(70,527)
Parks and recreation	3,500	3,500	4,967	(1,467)
	<u>586,640</u>	<u>586,640</u>	<u>634,461</u>	<u>(47,821)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(27,140)</u>	<u>(27,140)</u>	<u>(95,289)</u>	<u>(68,149)</u>
Excess (deficiency) of revenues & other sources over expenditures & other (uses)	<u>\$ (27,140)</u>	<u>\$ (27,140)</u>	(95,289)	<u>\$ (68,149)</u>
Fund balance - beginning of year			<u>817,194</u>	
Fund balance - end of year			<u>\$ 721,905</u>	

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

**CITY OF TATUM, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
ASSETS	<u>WATERWORKS</u>
Current assets:	
Cash	\$ 632,380
Accounts receivable (net)	<u>37,321</u>
Total current assets	<u>669,701</u>
Noncurrent assets:	
Capital assets:	
Waterworks system	5,507,347
Equipment	514,537
Buildings	13,283
Vehicles	92,497
Land	79,993
Less: accumulated depreciation	<u>(4,415,374)</u>
Total noncurrent assets	<u>1,792,283</u>
Total assets	<u>2,461,984</u>
DEFERRED OUTFLOWS OF RESOURCES	
Contributions to pensions subsequent to the measurement date	3,980
Differences between projected and actual investment earnings on pensions	<u>2,860</u>
Total deferred outflows of resources	<u>6,840</u>
LIABILITIES	
Current liabilities:	
Accounts payable	4,080
Accrued liabilities	<u>7,839</u>
Total current liabilities	<u>11,919</u>
Non-current liabilities:	
Customer meter deposits	21,791
Net pension liability	<u>9,350</u>
Total non-current liabilities	<u>31,141</u>
Total liabilities	<u>43,060</u>
DEFERRED INFLOWS OF RESOURCES	
Differences between expected and actual economic experience on pensions	9,573
Differences between projected and actual investment earnings on pensions	<u>2,597</u>
Total deferred inflows of resources	<u>12,170</u>
NET POSITION	
Investment in capital assets, net of related debt	1,792,283
Unrestricted	<u>621,311</u>
Total net position	<u>\$ 2,413,594</u>

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

CITY OF TATUM, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	WATERWORKS
OPERATING REVENUES	
Service charges	\$ 381,943
Tapping fees	7,100
Contributions and other	2,036
Total operating revenues	391,079
OPERATING EXPENSES	
Payroll costs	120,138
Chemicals and supplies	99,901
Contract labor	1,450
Depreciation	147,859
Maintenance and repairs	26,195
Professional fees and services	18,212
Travel and training	733
Utilities	71,240
Other	70
Total operating expenses	485,798
Operating loss	(94,719)
NONOPERATING REVENUES (EXPENSES)	
Interest income	4,857
Total nonoperating expenses	4,857
Change in net position	(89,862)
Net position - beginning	2,503,456
Net position - end of year	\$ 2,413,594

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

**CITY OF TATUM, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	WATERWORKS
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 384,765
Other cash receipts	2,036
Payments to suppliers	(212,778)
Payments to employees and contractors for service	(112,964)
Net cash provided by operating activities	61,059
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(93,117)
Net cash used in capital and related financing activities	(93,117)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	4,857
Net cash provided by investing activities	4,857
Net decrease in cash and cash equivalents	(27,201)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	659,581
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 632,380
Reconciliation of Operating Loss to Net Cash provided by Operating Activities	
Operating loss	\$ (94,719)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	147,859
Changes in assets and liabilities:	
Increase in accounts payable	2,840
Increase in accrued liabilities	33
Increase in pension liability	9,324
Increase in deferred inflows	2,167
Decrease in accounts receivable	2,879
Increase in deferred outflows	(9,324)
Total adjustments	155,778
Net cash provided by operating activities	\$ 61,059

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

Notes to the Financial Statements

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Tatum (City) operates as a general law city pursuant to the laws of the State of Texas under a Mayor-Alderman form of government. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2019.

Discretely Presented Component Unit

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City.

The financial statements of a city normally include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board. Based on these criteria, the financial activities of the Tatum Economic Development Corporation (TEDCO) is included in the financial statements as a discretely presented component unit of the City.

TEDCO was established to collect sales tax pursuant to the Development Corporation Act of 1979 with the purpose to promote, assist, and enhance economic development within the City so as to provide needed services and facilities to the residents of the City. The governing body of TEDCO is selected and approved by the City Council.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. Governmental activities include programs supported primarily by taxes and other intergovernmental revenues. Business-type activities include operations that rely to a significant extent on fees and charges for support.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Government-Wide and Fund Financial Statements - continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity.

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 identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Interfund activities between governmental funds appear as due to/due froms on the governmental fund balance sheet and as other resources and other uses on the governmental fund statement of revenues, expenditures and changes in fund balance. All interfund transactions between governmental funds are eliminated on the government-wide statements.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. All other expenses are non-operating.

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 the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of taxes. Tax revenue and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

The proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

The City reports the following major governmental funds:

General Fund – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

The City reports the following major proprietary fund:

Waterworks Fund – This fund is utilized for the operations of the water distribution system and the wastewater system provided by the City for the community.

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

The City’s cash and cash equivalents includes amounts on hand and in demand deposits.

Investments

State statutes and the City’s investment policy authorize the City to invest in obligations of the U.S. Treasury, State of Texas obligations, certificates of deposit, commercial paper, corporate bonds, repurchase agreements, and mutual funds.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either “Due to/from Other Funds” (i.e. the current portion of the interfund loan) or “Advances to/from Other Funds” (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “Due to/from Other Funds.”

Property Taxes Receivable are shown net of an allowance for uncollectibles. The allowance is equal to zero (0) percent of delinquent property taxes receivable at June 30, 2019. The City’s ad valorem taxes are levied on October 1 but do not become due until January 1 of the following year. Taxes become past due February 1 and become delinquent June 30. The City’s taxes become a lien on real property on the due date of January 1. This lien is effective until the taxes are paid.

Long-Term Liabilities

In the government-wide 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.

In the fund financial statements, governmental fund types report the face amount of the debt issued as Other Financing Sources and debt payments as Expenditures.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance-continued

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads and bridges), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of three (3) years. Such assets are recorded at historical cost where records are available or at an estimated fair market value at the date of acquisition where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide statements regardless of their amount.

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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, equipment and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Waterworks system	30
Infrastructure	20
Equipment	10
Building and improvements	10-45
Vehicles	5

In the case of initial capitalization of general infrastructure assets (i.e., those reported by the governmental activities), public domain property including roads, bridges, curbs and gutters, streets and sidewalks and similar assets prior to June 30, 2003 have not been capitalized by the City. Additional capital assets, constructed or acquired each period subsequent to June 30, 2003, are capitalized and reported at historical cost.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, and Net Position or Equity - continued

Fund Balance Classification

The City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

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

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

Assigned fund balance – amounts the City Council intends to use for a specific purpose. Intent can be expressed by the Mayor or the City Secretary, through which the City Council has delegated the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). When it is appropriate for fund balance to be assigned, the City Council designated the authority to the Mayor and the City Secretary (such as the purchase of fixed assets, construction, debt service, or for other purposes).

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, and Net Position or Equity - continued

Compensated Absences

Compensated vacations are granted to all full-time regular employees of the City. After the completion of a probationary three (3) months of employment, vacation is granted for employees. Regular employees earn five (5) days of vacation their first and second year, ten (10) days during their third and fourth year, and after five (5) years of employment, the employee will receive three (3) weeks of vacation. Management positions are provided with three (3) weeks of vacation from the date of hire. Vacation leave may not be carried from one calendar year to the next and upon termination of employment, any earned and unused vacation is forfeited and not paid.

Sick leave is accrued at the rate of seven (6) days per year. Sick leave accrues from year to year up to a maximum of thirty (30) days. Upon termination of employment, any earned and unused sick leave is not paid.

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 or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two (2) items which arises only under a modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the items are unavailable revenue, and are reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund considers all cash on hand and demand deposits to be cash equivalents.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Stewardship, Compliance, and Accountability

Budgetary Data

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund. The City holds a public hearing on the proposed budget prior to its adoption. All appropriations lapse at fiscal year-end.

The budget is legally enacted and once approved, can only be amended by approval of a majority of the Council members. Amendments are presented to the Council at its regular meetings.

Expenditures in Excess of Budgeted Amounts

The following is a summary of expenditures in excess of appropriations for the General Fund:

<u>Department</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Variance</u>
Emergency services	\$ 847	\$ 620	\$ (227)
Parks and recreation	\$ 4,967	\$ 3,500	\$ (1,467)
Highways and streets	\$ 70,527	\$ -	\$ (70,527)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS

Deposits

The City's balances were completely covered by federal deposit insurance or collateralized at June 30, 2019. The City's deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized.

Deposits categorized by level of risk for cash and cash equivalents are as follows:

<u>Primary Government</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
<i>Governmental activities:</i>					
General fund	\$ 702,901	\$ 250,000	\$ 452,901	\$ -	\$ 702,901
<i>Business-type activities:</i>					
Waterworks fund	632,380	-	632,380	-	632,380
Total	1,335,281	250,000	1,085,281	-	1,335,281
<u>Component Unit</u>					
TEDCO	238,042	238,042	-	-	238,042
Total	\$ 1,573,323	\$ 488,042	\$ 1,085,281	\$ -	\$ 1,573,323

Investments

TEDCO's certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the State. The FDIC currently insures the first \$250,000 of the City's deposits at each financial institution. Deposit balances over \$250,000 are insured by the collateral pool. As of June 30, 2019, the carrying amount of TEDCO's certificates of deposit was \$101,899.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Property Tax

The assessed valuation (net of exemptions) was \$47,930,454 for 2019 (with taxes due January 1, 2018) levied at a rate of \$0.337099 per hundred-dollar valuation.

Receivables

Receivables as of year-end for the City's major government funds and business-type funds, including applicable allowances for uncollectible accounts, are as follows:

<u>Receivables</u>	<u>Governmental</u> General Fund	<u>Business-Type</u> Waterworks Fund	Total	Component Unit TEDCO
Accounts	\$ -	\$ 37,321	\$ 37,321	\$ -
Fines	116,763	-	116,763	-
Taxes	86,138	-	86,138	14,583
Gross receivables	202,901	37,321	240,222	14,583
Less: Allowance for uncollectables	(115,332)	-	(115,332)	-
Total	<u>\$ 87,569</u>	<u>\$ 37,321</u>	<u>\$ 124,890</u>	<u>\$ 14,583</u>

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Capital Assets

The following is a summary of the changes in the capital assets during the fiscal year:

<u>Primary Government</u>	<u>Balance 6/30/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2019</u>
<i>Governmental activities</i>				
<u>Non-depreciable assets:</u>				
Land	\$ 20,496	\$ -	\$ -	\$ 20,496
<u>Depreciable assets:</u>				
Buildings and improvements	651,961	-	-	651,961
Equipment	327,025	-	-	327,025
Infrastructure	128,595	66,882	-	195,477
Park improvements	12,723	-	-	12,723
Vehicles	116,875	-	-	116,875
Accumulated depreciation	<u>(771,521)</u>	<u>(45,588)</u>	<u>-</u>	<u>(817,109)</u>
Governmental activities, net	<u>486,154</u>	<u>21,294</u>	<u>-</u>	<u>507,448</u>
<i>Business-type activities</i>				
<u>Non-depreciable assets:</u>				
Land	79,993	-	-	79,993
<u>Depreciable assets:</u>				
Waterworks system	5,439,161	68,186	-	5,507,347
Equipment	489,606	24,931	-	514,537
Buildings	13,283	-	-	13,283
Vehicles	92,497	-	-	92,497
Accumulated depreciation	<u>(4,267,515)</u>	<u>(147,859)</u>	<u>-</u>	<u>(4,415,374)</u>
Business-type activities, net	<u>1,847,025</u>	<u>(54,742)</u>	<u>-</u>	<u>1,792,283</u>
Capital assets, net	<u>\$ 2,333,179</u>	<u>\$ (33,448)</u>	<u>\$ -</u>	<u>\$ 2,299,731</u>

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Capital Assets – continued

Depreciation expense for governmental activities was charged to Functions/Programs as follows:

Administration	\$	6,665
Police department		16,591
Emergency services		3,161
Highways and streets		4,812
Parks and recreation		<u>14,359</u>
Total depreciation expense	\$	<u>45,588</u>

Component Unit	Balance 6/30/2018	Additions	Deletions	Balance 6/30/2019
Non-depreciable assets:				
Land	\$ 167,496	\$ -	\$ -	\$ 167,496
Depreciable assets:				
Buildings	26,009	-	-	26,009
Accumulated depreciation	<u>(2,059)</u>	<u>(1,301)</u>	<u>-</u>	<u>(3,360)</u>
Component unit, net	<u>\$ 191,446</u>	<u>\$ (1,301)</u>	<u>\$ -</u>	<u>\$ 190,145</u>

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. There have been no significant reductions in insurance coverage during the year ending June 30, 2019.

The City is a member of the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool, participating in workers' compensation, general liability, law enforcement liability, errors and omissions liability, automobile liability, automobile physical damage, real and personal property coverage, and employee health insurance.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial. No reportable litigation was pending against the City as of June 30, 2019.

Long-Term Debt

The changes in the City's long-term debt as of June 30, 2019 are as follows:

<u>Primary Government</u>	<u>Original Balance</u>	<u>Balance 6/30/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2019</u>
<i>Governmental activities:</i>					
Net pension liability	\$ -	\$ 3,219	\$ 22,957	\$ -	\$ 26,176
<i>Business-type activities:</i>					
Customer meter deposits	-	21,791	-	-	21,791
Net pension liability	-	26	9,324	-	9,350
Total	<u>\$ -</u>	<u>\$ 25,036</u>	<u>\$ 32,281</u>	<u>\$ -</u>	<u>\$ 57,317</u>

Related Parties

In the ordinary course of business, the City has and expects to continue to have transactions with its employees and elected officials. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectibility or present any other unfavorable features to the City.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan

Plan Description – The City participates as one of 887 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. Plan provisions for the City were as follows:

Plan Year	2018	2019
Employee deposit rate	5%	5%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25

**CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

Employees covered by benefit terms:

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	14
Active employees	10
Total	<u>28</u>

Contributions – The contribution rate 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) 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. The contribution rates for the City were 1.79% and 2.11% in calendar years 2018 and 2019, respectively. The City’s contributions to TMRS for the year ended June 30, 2019 were \$7,311, and were equal to the required contributions.

Net Pension Liability – The City’s Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

Actuarial assumptions:

The Total Pension Liability in the December 31, 2018 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%. For the City as a small participant city, the base table is then multiplied by a factor of 85.0% based on the experience of the City in comparison to the group as a whole.

A further multiplier is applied depending on an employee’s classification: 1) Fire – 63%, 2) Police – 88%, or 3) Other – 108%, which adds an additional layer of conservatism. The rates are based on a fully generational basis by scale BB to account for future mortality improvements. For disable annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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 TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

Actuarial assumptions – continued:

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.30%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.39%
Real Return	10.00%	3.78%
Real Estate	10.00%	4.44%
Absolute Return	10.00%	3.56%
Private Equity	5.00%	7.75%
Total	<u>100.00%</u>	

Discount rate:

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

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

Changes in the net pension liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2017	\$ 365,142	\$ 361,897	\$ 3,245
Changes for the year:			
Service cost	\$ 25,832	\$ -	\$ 25,832
Interest	24,640	-	24,640
Change of benefit terms	-	-	-
Difference between expected and actual experience	(462)	-	(462)
Changes of assumptions	-	-	-
Contributions - employer	-	8,543	(8,543)
Contributions - employee	-	20,245	(20,245)
Net investment income	-	(10,838)	10,838
Benefit payments, including refunds of employee contributions	(26,031)	(26,031)	-
Administrative expense	-	(210)	210
Other changes	-	(11)	11
Net changes	23,979	(8,302)	32,281
Balance at 12/31/2018	\$ 389,121	\$ 353,595	\$ 35,526

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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate 5.75%	Current Rate Assumption 6.75%	1% Increase in Discount Rate 7.75%
City's net pension liability (asset)	\$ 88,702	\$ 35,526	\$ (8,406)

Pension plan fiduciary net position:

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

**CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions:

For the year ended June 30, 2019, the City recognized pension expense of \$6,942.

At June 30, 2019, 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	\$ 12,089	\$ 33,901
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	9,977
Contributions subsequent to the measurement date	13,782	-
Total	\$ 25,871	\$ 43,878

The amount of \$13,782 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 June 30, 2019. Other amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2019	\$ 1,289
2020	(2,000)
2021	2,455
2022	7,036
2023	-
Thereafter	-
Total	\$ 8,780

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Postemployment Benefits Other Than Pensions (OPEB): Supplemental Death Benefits Fund

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

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

Employees covered by benefit terms:

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2	
Inactive employees entitled to but not yet receiving benefits	2	
Active employees	10	
Total	14	

Contributions – 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.

Schedule of contributions:

Plan Year	2018	2019
Total SDB Contribution (Rate)	0.17%	0.15%
Retiree Portion of SDB Contribution (Rate)	0.00%	0.00%

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

(OPEB): Supplemental Death Benefits Fund - continued

Actuarial assumptions:

Summary of actuarial assumptions:	
Inflation	2.50%
Salary increases	3.50% to 10.5% including inflation
Discount rate*	3.31%
Retirees' share of benefit-related costs	\$0.00
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates – disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.
*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.	

Changes in the OPEB liability:

	<u>Total OPEB Liability</u>
Balance at 12/31/2016	\$ 4,772
Changes for the year:	
Service cost	\$ 146
Interest	183
Change of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	422
Benefit payments	-
Net changes	<u>751</u>
Balance at 12/31/2017	<u>\$ 5,523</u>

**CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

(OPEB): Supplemental Death Benefits Fund - continued

Sensitivity of the OPEB liability to changes in the discount rate:

	<u>1% Decrease in Discount Rate (2.31%)</u>	<u>Current Rate Assumption (3.31%)</u>	<u>1% Increase in Discount Rate (4.31%)</u>
City's net pension liability (asset)	\$ 6,577	\$ 5,523	\$ 4,680

OPEB expense:

	<u>OPEB Expense</u>
Service cost	\$ 146
Interest	183
Change of benefit terms	-
Employer administrative costs	-
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience	-
Changes of assumptions	<u>62</u>
Net changes	<u>391</u>
Balance at 12/31/2017	<u><u>\$ 391</u></u>

Deferred outflows of resources and deferred inflows of resources related to OPEB:

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

	<u>Deferred (Inflows) of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 317
Changes in assumptions and other inputs	(87)	-
Contributions subsequent to the measurement date	<u>-</u>	<u>600</u>
Total	<u><u>\$ (87)</u></u>	<u><u>\$ 917</u></u>

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

(OPEB): Supplemental Death Benefits Fund - continued

Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future OPEB expense (excluding city-provided contributions made subsequent to the measurement date):

<u>Year ended December 31:</u>	
2019	\$ 63
2020	63
2021	63
2022	63
2023	63
Thereafter	<u>(85)</u>
Total	<u>\$ 230</u>

Accounting Standards

The GASB has issued the following Statement(s) which were implemented during the current fiscal year as shown below:

GASB Statement No. 83, *“Certain Asset Retirement Obligations”* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement will become effective June 30, 2019. All applicable provisions have been included in the City’s financial statements as of June 30, 2019.

GASB Statement No. 88, *“Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.”* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. All applicable provisions have been included in the City’s financial statements as of June 30, 2019.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Accounting Standards – continued

GASB Statement No. 90, *“Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61.”* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. All applicable provisions have been included in the City’s financial statements as of June 30, 2019.

The GASB has issued the following Statements which will become effective in future years as shown below:

GASB Statement No. 84, *“Fiduciary Activities.”* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 87, *“Leases.”* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 89, *“Accounting for Interest Cost Incurred before the End of a Construction Period.”* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 91, *“Conduit Debt Obligations.”* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

**CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

OMB Circular A-133 – State of Texas Single Audit Circular

The City did not expend \$750,000 or more in federal or state awards during 2019. As a result, a Single Audit in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular was not required for the year ended June 30, 2019.

Subsequent Events

Management has evaluated subsequent events through December 9, 2019, which is the date the financial statements were made available to management.

Required Supplementary Information

TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST 10 YEARS (WILL ULTIMATELY BE DISPLAYED)
(UNAUDITED)

	2014	2015	2016	2017	2018
Total pension liability					
Service cost	\$ 17,689	\$ 24,668	\$ 23,603	\$ 21,571	\$ 25,832
Interest (on the total pension liability)	21,235	22,662	22,698	24,252	24,640
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	7,897	(12,949)	(1,253)	(18,570)	(462)
Change of assumptions	-	9,265	-	-	-
Benefit payments, including refunds of employee contributions	<u>(19,428)</u>	<u>(40,411)</u>	<u>(20,787)</u>	<u>(21,224)</u>	<u>(26,031)</u>
Net change in total pension liability	27,393	3,235	24,261	6,029	23,979
Total pension liability - beginning	<u>304,224</u>	<u>331,617</u>	<u>334,852</u>	<u>359,113</u>	<u>365,142</u>
Total pension liability - ending (a)	<u>\$ 331,617</u>	<u>\$ 334,852</u>	<u>\$ 359,113</u>	<u>\$ 365,142</u>	<u>\$ 389,121</u>
Plan fiduciary net position					
Contributions - employer	\$ 7,616	\$ 7,605	\$ 7,578	\$ 7,127	\$ 8,543
Contributions - employee	17,579	19,302	18,129	16,826	20,245
Net investment income	16,180	450	19,676	43,734	(10,838)
Benefit payments, including refunds of employee contributions	(19,428)	(40,411)	(20,787)	(21,224)	(26,031)
Administrative expense	(169)	(274)	(222)	(227)	(210)
Other	<u>(14)</u>	<u>(14)</u>	<u>(12)</u>	<u>(11)</u>	<u>(11)</u>
Net change in plan fiduciary net position	21,764	(13,342)	24,362	46,225	(8,302)
Plan fiduciary net position - beginning	<u>282,888</u>	<u>304,652</u>	<u>291,310</u>	<u>315,672</u>	<u>361,897</u>
Plan fiduciary net position - ending (b)	<u>\$ 304,652</u>	<u>\$ 291,310</u>	<u>\$ 315,672</u>	<u>\$ 361,897</u>	<u>\$ 353,595</u>
Net pension liability - ending [(a) - (b)]	<u>\$ 26,965</u>	<u>\$ 43,542</u>	<u>\$ 43,441</u>	<u>\$ 3,245</u>	<u>\$ 35,526</u>
Plan fiduciary net position as a percentage of total pension liability	91.87%	87.00%	87.90%	99.11%	90.87%
Covered employee payroll	\$ 343,098	\$ 386,038	\$ 362,572	\$ 336,520	\$ 404,896
Net pension liability as a percentage of covered employee payroll	7.86%	11.28%	11.98%	0.96%	8.77%

**TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
LAST 10 YEARS (WILL ULTIMATELY BE DISPLAYED)
(UNAUDITED)**

	2014	2015	2016	2017	2018
Actuarially determined contribution	\$ 26,965	\$ 43,542	\$ 43,441	\$ 3,245	\$ 35,526
Contributions in relation to the actuarially determined contribution	<u>25,195</u>	<u>26,907</u>	<u>25,707</u>	<u>23,953</u>	<u>28,788</u>
Contribution deficiency (excess)	<u><u>1,770</u></u>	<u><u>16,635</u></u>	<u><u>17,734</u></u>	<u><u>(20,708)</u></u>	<u><u>6,738</u></u>
Covered employee payroll	343,098	386,038	362,572	336,520	404,896
Contributions as a percentage of covered employee payroll	7.34%	6.97%	7.09%	7.12%	7.11%

NOTES TO THE SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method

Entry age normal

Amortization method

Level percentage of payroll, closed

Remaining amortization period

20 years

Asset valuation method

10 year smoothed market, 15% soft corridor

Inflation

2.5%

Salary increases

3.50% to 10.5% including inflation

Investment rate of return

6.75%

Retirement age

Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Mortality

Other information:

Notes

There were no benefit changes during the year.

**TEXAS MUNICIPAL RETIREMENT SYSTEM
 SUPPLEMENTAL DEATH BENEFITS FUND
 SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
 LAST 10 YEARS (WILL ULTIMATELY BE DISPLAYED)
 (UNAUDITED)**

	2018
Total OPEB liability	
Service cost	\$ 972
Interest (on the total OPEB liability)	661
Changes of benefit terms	-
Difference between expected and actual experience	362
Change of assumptions	(1,587)
Benefit payments	(283)
Net change in total OPEB liability	125
Total OPEB liability - beginning	19,622
Total OPEB liability - ending	\$ 19,747
Covered employee payroll	\$ 404,896
Total OPEB liability as a percentage of covered employee payroll	4.88%

Compliance and Internal Control



David K. Godwin

Certified Public Accountant

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 City Council
City of Tatum, Texas

I 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, each major fund, and the aggregate remaining fund information of the City of Tatum, Texas (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated December 9, 2019.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.



David K. Godwin
Certified Public Accountant

Tyler, Texas
December 9, 2019

**CITY OF TATUM, TEXAS
SUMMARY SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

2014-001 Significant Deficiency
Corrective Action Plan
To ensure public services functions are performed daily, the City will work to cross train appropriate personnel. In addition, the City will work with key personnel to develop formal procedures that outline their daily routines.
Remediation Status
COMPLETE

2014-003.02 Significant Deficiency
Corrective Action Plan
Invoices are currently reviewed by the City Council; however, an additional layer of internal control will be added to include documentation of this review through initials of the reviewer on invoices. Additionally, the City will design, implement, and document a monthly review of bank reconciliations and electronic bank drafts to enhance oversight of future disbursement activities.
Remediation Status
COMPLETE