

CITY OF SULLIVAN CITY AUDITED
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**City of Sullivan City
Annual Financial Report
For the Year Ended September 30, 2017**

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**City of Sullivan City
Annual Financial Report
For the Year Ended September 30, 2017**

Principal Officials

MAYOR

Rosendo "Cheno" Benavides

CITY COMMISSION

Leonel "Leo" Garcia – Mayor Pro-Tem

Daniel Flores – Commissioner

Joel Flores – Commissioner

Adriana Rodriguez – Commissioner

OTHER OFFICIALS

Financial Section



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Oscar R. González
Melissa González

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Sullivan City, Texas

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sullivan City, Texas, as of September 30, 2017, and the respective changes in financial position 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 and budgetary comparison information as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial

statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2018, on our consideration of the City of Sullivan City, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Sullivan City, Texas's internal control over financial reporting and compliance.

Handwritten signature of Oscar R. Gonzalez in blue ink, reading "Oscar R. Gonzalez CPA & Associates PLLC".

Oscar R. Gonzalez, CPA & Associates, PLLC
Certified Public Accountants

Pharr, Texas
June 27, 2018

Management Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Sullivan City, Texas (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Sullivan City, Texas for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's assets from governmental activities exceeded its liabilities at the close of the most recent fiscal year by over \$1,089,904 compared to \$1,642,743 in the prior year.
- The City's total net position increased by \$652,928
- Unreserved fund balance for the general fund was \$547,407 for 2017 and \$546,251 for 2016 respectively.
- The General Fund ended the year with a positive fund balance of \$591,546

Overview of the Financial Statements

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

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

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, drainage, health and welfare, and culture and recreation. The government-wide financial statements include itself (known as primary government). The government-wide financial statements can be found on pages 14 and 15 of this report. The government-wide financial statements include not only the City itself, but also its legally component unit Economic Development Corporation and Crime Prevention for which the city is financially accountable.

Management's Discussion and Analysis

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

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

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

The City adopts an annual appropriated budget for all of its governmental funds with the exception of grant funded special revenue funds and capital projects funds, if any.

The basic governmental fund financial statements can be found on pages 17 through 20 of this report.

Proprietary funds – The City would normally report the activities for which it charges users (whether outside customers or other units of the city) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and Statement of Activities. The City does not report an enterprise fund.

Notes to financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 through 32 of this report.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,089,904 and \$1,642,743 for 2017 and 2016 as adjusted, respectively, for governmental activities. One of the largest portions of the City's net position (33 percent) reflects its investment in capital assets (e.g., land building, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding.

Management's Discussion and Analysis

Government-wide Financial Analysis

The City's Statement of Net Position along with the last fiscal year's numbers are presented for comparison in the table below.

	Governmental		Totals		Increase (Decrease)
	Activities				
	2017	2016	2017	2016	
Current Assets	\$ 1,745,025	\$ 2,178,299	\$ 1,745,025	\$ 2,178,299	\$(433,274)
Non-Current Assets	1,176,351	589,160	1,176,351	589,160	587,191
Total Assets	<u>2,921,376</u>	<u>2,767,459</u>	<u>2,921,376</u>	<u>2,767,459</u>	153,917
Aggregate Deferred					
Outflows of Resources	-	-	-	-	-
Current Liabilities	661,219	1,038,077	661,219	1,038,077	(376,858)
Non-Current Liabilities	45,049	86,639	45,049	86,639	(41,590)
Total Liabilities	<u>706,268</u>	<u>1,124,716</u>	<u>706,268</u>	<u>1,124,716</u>	(418,448)
Aggregate Deferred					
Inflows of Resources					
Net Invested in					
Capital Assets	1,188,560	548,751	1,188,560	548,751	639,809
Restricted	53,959	40,840	53,959	40,840	13,119
Unrestricted	1,053,152	1,053,152	1,053,152	1,053,152	-
Total Net Position	<u>\$ 2,295,671</u>	<u>\$ 1,642,743</u>	<u>\$ 2,295,671</u>	<u>\$ 1,642,743</u>	<u>\$ 652,928</u>

The City's overall net position increased by \$652,928 during the current fiscal year. This is mainly due to an increase in the property tax rate which raised property tax revenue by 12.8%.

Management's Discussion and Analysis

Governmental activities. Governmental activities increased the City's net position by \$857,788

	Governmental Activities		Totals		Increase (Decrease)
	2017	2016	2017	2016	
Revenues					
<u>Program Revenues</u>					
Charges for Services	\$ 876,410	\$ 876,410	\$ 876,410	\$ 876,410	\$ -
Operating Grants	26,744	26,744	26,744	26,744	-
Capital Grants	532,305	28,215	532,305	28,215	504,090
<u>General Revenues</u>					
Property Tax	435,852	413,529	435,852	413,529	22,323
Sales Tax	269,783	265,596	269,783	265,596	4,187
Other Tax	96,597	96,623	96,597	96,623	(26)
Other Revenues	90,088	90,088	90,088	90,088	-
Total Revenues	<u>\$2,327,779</u>	<u>\$1,797,205</u>	<u>\$2,327,779</u>	<u>\$1,797,205</u>	<u>\$ 530,574</u>
Expenses					
General Government	\$ 754,328	\$ 580,647	\$ 754,328	\$ 580,647	
Public Safety	656,640	693,127	656,640	693,127	(36,487)
Culture & Recreation	6,000	1,790	6,000	1,790	4,210
Economic Development	56,024	52,757	56,024	52,757	3,267
Total Expenses	<u>1,472,992</u>	<u>1,328,321</u>	<u>1,472,992</u>	<u>1,328,321</u>	<u>144,671</u>
Non-Operating Transfers (Net)	-	-	-	-	
Increase (Decrease) in Net Position	854,788	468,885	854,788	468,885	385,903
Net Position - Beginning	<u>1,173,858</u>	<u>1,173,858</u>	<u>1,173,858</u>	<u>1,173,858</u>	-
Net Position - Ending	<u>\$2,028,646</u>	<u>\$1,642,743</u>	<u>\$2,028,646</u>	<u>\$1,642,743</u>	<u>\$ 385,903</u>

Financial Analysis of the City's Funds

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

Governmental funds- The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular unreserved fund balance may serve as a useful measure of a Government's net resources available for spending at the end of the fiscal year. The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund had a balance of \$546,251 and the Special Revenue Fund (Economic Development Corporation and Crime Prevention) had a fund balance of \$44,135 and \$(3,295) of which all is restricted.

Management's Discussion and Analysis

General Fund Budgetary Highlights

Actual revenues for the year exceeded actual expenditures by \$402,776. Actual revenues exceeded budgeted revenues by \$261,476 while actual expenditures did not exceed appropriations by \$141,300.

Capital Assets and Debt Administration

Capital Assets

The City of Sullivan City's investments in capital assets for its governmental activities amount to \$1,176,351 and \$589,160 (net of accumulated depreciation) for 2017 and 2016. This investment in capital assets includes land, buildings, construction in progress and machinery and equipment. 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 used to liquidate these liabilities.

	Governmental Activities		Totals		Increase (Decrease)
	2017	2016	2017	2016	
Capital Assets, Not Being Depreciated:					
Land	\$ 34,726	\$ 34,726	\$ 34,726	\$ 34,726	\$ -
Construction-In-Progress	983,016	450,711	983,016	450,711	532,305
	<u>1,017,742</u>	<u>485,437</u>	<u>1,017,742</u>	<u>485,437</u>	
Capital Assets, Being Depreciated:					
Buildings	9,422	9,422	9,422	9,422	-
Machinery & Equipment	335,964	241,414	335,964	241,414	94,550
	<u>345,386</u>	<u>250,836</u>	<u>345,386</u>	<u>250,836</u>	<u>94,550</u>
Accumulated Deprecation	<u>(186,777)</u>	<u>(147,113)</u>	<u>(186,777)</u>	<u>(147,113)</u>	<u>(39,664)</u>
Total Capital Assets, Being Depreciated, Net	<u>158,609</u>	<u>103,723</u>	<u>158,609</u>	<u>103,723</u>	<u>54,886</u>
Capital Asssets, Net	<u>\$ 1,176,351</u>	<u>\$ 589,160</u>	<u>\$ 1,176,351</u>	<u>\$ 589,160</u>	<u>\$ 587,191</u>

Long-Term Debt

Below is a table summarizing the long term debt of the City.

City of Sullivan City Long-Term Obligations

	Governmental Activities		Totals		Increase (Decrease)
	2017	2016	2017	2016	
Long-Term Obligations					
Capital Leases	\$ 62,298	\$ 40,410	\$ 62,298	\$ 40,410	\$ 21,888
Note Payables	-	77,451	-	77,451	(77,451)
Total Long-Term Obligations	<u>\$ 62,298</u>	<u>\$ 117,861</u>	<u>\$ 62,298</u>	<u>\$ 117,861</u>	<u>\$ (55,563)</u>

Additional information on the City's debt service can be found in the notes to the financial statements.

Economic Factors and Next Year's Budget And Rates

The City's elected and appointed officials considered many factors when setting the fiscal year end 2017 budget.

- The ad valorem property tax rate was set at \$0.4606 to generate the revenues necessary for the operation of the City. This tax rate should reduce total property taxes than last year's budget by \$5,514 (1.32%).
- General operating fund spending budget for 2017 was prepared based on history of actual definite revenues and essential expenses to operate.
- The budget provides for medical insurance for all employees, changing Code Enforcement Position from part-time to full-time, a small salary increase for all employees, as well as a deposit for a rainy day fund.

Amounts available for appropriation in the general fund budget are \$1.6 thousand, down \$100,000 compared to \$1.7 thousand for the 2017 budget. Ad Valorem taxes, sales tax payments, franchise taxes, and grant revenues account for a significant portion of the revenues. Budgeted expenditures are expected not to rise beyond \$1.6 million in 2017.

If these estimates are realized, the City's budgetary general fund balance is expected to remain constant by the close of 2017.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or the component unit (EDC) should be addressed to the Office of the City of Sullivan City, City Manager: P.O. Box 249, Sullivan City, Texas 78595.

Basic Financial Statements

City of Sullivan City, Texas
Statement of Net Position
September 30, 2017

	Primary Government	
	Governmental Activities	Total
ASSETS		
Cash and Cash Equivalents	\$ 529,875	\$ 529,875
Grants Receivable	35,232	35,232
Property Taxes Receivable (Net)	202,358	202,358
Sales Taxes Receivable	77,312	77,312
Warrants Receivable	343,407	343,407
Urban County Receivable	556,841	556,841
Land	34,726	34,726
Construction In Progress	983,016	983,016
Buildings and Equipment (Net)	158,609	158,609
<i>Total Assets</i>	<u>2,921,376</u>	<u>2,921,376</u>
DEFERRED OUTFLOWS OF RESOURCES		
Aggregated deferred outflows	--	--
<i>Total Deferred Outflows of Resources</i>	<u>--</u>	<u>--</u>
LIABILITIES		
Account Payable	61,958	61,958
Payroll Liabilities	25,171	25,171
Deferred Revenues - Urban County	556,841	556,841
Due Within One Year	17,249	17,249
Due in More Than One Year	45,049	45,049
<i>Total Liabilities</i>	<u>706,268</u>	<u>706,268</u>
DEFERRED INFLOWS OF RESOURCES		
Aggregated deferred inflows	--	--
<i>Total Deferred Inflows of Resources</i>	<u>--</u>	<u>--</u>
NET POSITION		
Inv. in fixed assets net of rel. debt	1,114,053	1,114,053
<i>Restricted for:</i>		
Restricted for Crime Control	1,108	1,108
Restricted for Economic Development	53,959	53,959.10
<i>Unrestricted</i>	1,101,055	1,101,055
<i>Total Net Position</i>	<u>\$ 2,270,175</u>	<u>\$ 2,270,175</u>

The notes to these statements are an integral part of these statements.

City of Sullivan City, Texas
Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Primary Government						
Governmental Activities:						
General Government	\$ 717,432	\$ 302,685	\$ 15,658	\$ 37,537	\$ (361,551)	\$ (361,551)
Public Safety	619,895	333,865	-	-	(286,031)	(286,031)
Culture and Recreation	6,000	-	-	-	(6,000)	(6,000)
Economic Development	56,024	-	-	-	(56,024)	(56,024)
Urban County	-	-	-	532,305	532,305	532,305
<i>Total Governmental Activities</i>	<u>1,399,351</u>	<u>636,550</u>	<u>15,658</u>	<u>569,842</u>	<u>(177,301)</u>	<u>(177,301)</u>
<i>Total Primary Government</i>	<u>\$ 1,399,351</u>	<u>\$ 636,550</u>	<u>\$ 15,658</u>	<u>\$ 569,842</u>	<u>\$ (177,301)</u>	<u>\$ (177,301)</u>

General Purpose Revenues and Transfers:

Revenues

Property Taxes	427,690	427,690
Sales Taxes	269,783	269,783
Franchises Taxes	96,597	96,597
Other Revenues	29,586	29,586
<i>Total General Revenues and Transfers</i>	<u>823,656</u>	<u>823,656</u>
<i>Change in Net Position</i>	646,355	646,355
<i>Net Position at Beginning of Period</i>	1,642,743	1,642,743
<i>Prior Period Adjustment</i>	(73,991)	(73,991)
<i>Net Position at End of Period</i>	<u>\$ 2,215,108</u>	<u>\$ 2,215,108</u>

City of Sullivan City, Texas
Balance Sheet
Governmental Funds
September 30, 2017

	General	Speical Revenue		Total Governmental Funds
		Sullivan City Economic Devel Corp	Crime Control & Prevention District	
ASSETS				
Cash and Cash Equivalents	\$ 493,673	\$ 32,191	\$ 4,011	\$ 529,875
Property Taxes Receivable	202,358	-	-	202,358
Grants Receivable	35,232	-	-	35,232
Due From Other Governments	556,840	-	-	556,840
Sales Taxes Receivable	54,413	11,372	11,527	77,312
Warrants Receivable	343,407	-	-	343,407
Due From Other Funds	27,140	11,997	181	39,318
Total Assets	1,713,063	55,560	15,719	1,784,342
DEFERRED OUTFLOWS OF RESOURCES				
Aggregated deferred outflows	-	-	-	-
Total Deferred Outflows of Resources	\$ 1,713,063	\$ 55,560	\$ 15,719	\$ 1,784,342
LIABILITIES				
Account Payable	\$ 73,109	\$ -	\$ -	\$ 73,109
Payroll Liabilities	25,171	-	-	25,171
Deferred Revenues - Ubran County	556,840	-	-	556,840
Due to other funds	12,178	12,529	14,611	39,318
Total Liabilities	667,298	-	-	694,438
DEFERRED INFLOWS OF RESOURCES				
Deferred Revenues - Property Taxes	154,951	-	-	154,951
Deferred Revenues - Warrants	343,407	-	-	343,407
Total Deferred Inflows of Resources	1,165,656	12,529	14,611	1,192,796
FUND BALANCE				
Restricted	-	43,031	1,108	44,139
Unassigned	547,407	-	-	547,407
Total Fund Balance	547,407	43,031	1,108	591,546
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 1,713,063	\$ 55,560	\$ 15,719	1,784,342

The notes to these statements are an integral part of these statements.

City of Sullivan City, Texas
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2017

Total Fund Balance - Governmental Funds	\$	591,546
Principal payments on long-term expenses in governmental fund statements, expensed as incurred in entity wide statements, and reflected as liability on Statement of Assets.		17,249
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements.		(39,644)
Fixed assets are capitalized in Statement of Net Assets and depreciated in the Statement of Activities. These are expensed when acquired in the Statement of Revenues, Expenditures, and Changes in Fund Balance.		589,160
Long term debt reflected on Statement of Net Assets not in governmental funds balance sheet.		(79,547)
Fixed assets expenses as capital outlay in governmental fund statements, capitalized as fixed assets in Statement of Net Assets.		637,987
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		154,951
Warrants receivable that are not collected until after the fiscal year end are deferred in the funds.		343,407
Total Net Position-Governmental Funds	\$	<u>2,215,108</u>

The notes to these statements are an integral part of these statements.

City of Sullivan City, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended September 30, 2017

	<u>General</u>	<u>Sullivan City Economic Devel Corp</u>	<u>Crime Control & Prevention District</u>	<u>Total Governmental Funds</u>
Revenues				
Property Taxes	\$ 435,852	\$ -	\$ -	\$ 435,852
Sales Taxes	137,692	65,848	66,243	269,783
Franchises Taxes	96,597	-	-	96,597
Grant/Intergovernmental Revenues	585,498	-	-	585,498
Permits and Fees	302,685	-	-	302,685
Fines and Forfeitures	333,865	-	-	333,865
Other Revenues	29,586	-	-	29,586
Total Revenues	<u>1,921,775</u>	<u>65,848</u>	<u>66,243</u>	<u>2,053,866</u>
Expenditures				
General Government	754,328	-	-	754,328
Public Safety	594,800	-	61,840	656,640
Culture and Recreation	6,000	-	-	6,000
Economic Development	-	56,024	-	56,024
Debt - Principal	17,249	-	-	17,249
Urban County	532,305	-	-	532,305
Total Expenditures	<u>1,904,682</u>	<u>56,024</u>	<u>61,840</u>	<u>2,022,546</u>
Excess of Revenues Over (Under) Expenditures	<u>17,092</u>	<u>9,824</u>	<u>4,403</u>	<u>31,320</u>
Other Financing Sources (Uses)	40,092	-	-	40,092
Net Other Financing Sources (Uses)	40,092	-	-	40,092
Net Change in Fund Balance	57,184	9,824	4,403	71,412
Fund Balance at Beginning of Period	546,251	44,135	(3,295)	587,091
Prior Period	(66,957)	-	-	(66,957)
Fund Balance at End of Period	<u>\$ 536,478</u>	<u>\$ 53,959</u>	<u>\$ 1,108</u>	<u>\$ 591,546</u>

The notes to these statements are an integral part of these statements.

City of Sullivan City, Texas
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended September 30, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	71,412
Principal payments on long-term expenses in governmental fund statements, expensed as incurred in entity wide statements, and reflected as liability on Statement of Assets.		17,249
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements.		(39,664)
Fixed assets expenses as capital outlay in governmental fund statements, capitalized as fixed assets in Statement of Net Assets.		550,711
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		(8,162)
Changes in Net Position-Governmental Funds	\$	591,546

The notes to these statements are an integral part of these statements.

Notes to the Financial Statements

City of Sullivan City
Notes to Financial Statements
For the Year Ended September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

CITY OF SULLIVAN CITY (the “City”) was incorporated on April 15, 1972, under Article XI, Section 5 of the Constitution of the State of Texas. The City operates under a Mayor-Commissioner form of government and provides the following services as authorized by its charter. The services include public safety (police and fire), public works, sanitation, health and social services, culture-recreation, public improvement, planning and zoning, and general administrative services.

The combined financial statements of the City of Sullivan City, Texas (the “City”) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

The City’s basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City’s reporting entity, as set forth in GASB Statement No. 14, “The Financial Reporting Entity”, include whether:

- The organization is legally separate
- The City holds the corporate powers of the organization
- The City appoints a voting majority to the organization’s board
- The city is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization of the City
- The exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax – exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements that are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units, or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) such economic resources are significant to the City.

Based on these criteria the City has no component unit. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement

C. Government-Wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City’s non-fiduciary activities with most of the inter-fund activities removed. Governmental activities include programs supported primarily by taxes, State Funds, grants and other intergovernmental revenues. Business-type activities include operations that rely to a significant extent on fees and charges for support.

City of Sullivan City
Notes to Financial Statements
For the Year Ended September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The “charges for services” column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City.

The “grants and contributions” column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City’s functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the governmental-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use 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 increase 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 un-matured interest and principle 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 property taxes. Property tax revenues 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.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made.

City of Sullivan City
Notes to Financial Statements
For the Year Ended September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds 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 operation of these funds are included on the fund statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

In the fund financial statements, governmental funds report fund balances based on the following classifications: nonspendable, restricted, committed or unassigned. Restricted fund balances are amounts legally restricted by outside parties for use be a specific purpose. Commitments of fund balance require approval of the City Council through action. The City Council delegates the responsibility to assign fund balance to the City Manager or his designee, when appropriate. Funds will be utilized in the following spending order: restricted, committed, assigned and unassigned.

On October 1, 2012, the District adopted GASB Statement No. 63 Financial Reporting of Deferred outflows of Resources, Deferred Inflows of Resources, and Net Position and early implemented GASB Statement No. 65 Items Previously Reported as Assets and Liabilities as encouraged by GASB. As a result of the adoption of these new accounting standards, a restatement of beginning net position at the government-wide level financial statement was required.

GASB Statement No. 63 provides financial guidance for reporting deferred outflows, deferred inflows of resources, and net position in a statement of financial position and related disclosures. Deferred outflows of resources are defined as a consumption of net assets by a government that is applicable to a future reporting period and deferred inflows of resources are defined as an acquisition of net assets by a government that is applicable to a future reporting period. Net position is defined as the residual of all other elements presented in a statement of financial position, being measured as the difference between (a) assets and deferred resources and (b) liabilities and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows or resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in financial statement presentations.

E. Fund Types and Major Funds

A. FUND ACCOUNTING

The City reports the following major governmental funds:

- **The 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.

Additionally, the City reports the following fund type(s):

Governmental Funds:

- **Special Revenue Funds** –The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods. The City has no special revenue funds.

City of Sullivan City
Notes to Financial Statements
For the Year Ended September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Debt Service Funds** - the City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund. The City has no debt service fund.
- **Permanent Funds** The City accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the City's programs. The City has no Permanent Funds.
- **The Capital Projects Fund** –This fund is used to account for financial resources used for the acquisition of capital assets or construction of major capital facilities, not being financed by the proprietary funds. The City has no capital projects funds.

Proprietary Funds:

- **Enterprise Funds** – The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The City has no enterprise funds
- **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the City on a cost reimbursement basis are accounted for in an internal service fund. The City has not Internal service funds.

Fiduciary Funds:

- **Private Purpose Trust Funds** – The City accounts for donations for which the donor has stipulated that both the principle and the income may be used for purposes that benefit parties outside the City. The City has no Private Purpose Trust Funds.
- **Agency Funds** – The City accounts for resources held for others in a custodial capacity in agency funds. The City has no Agency Funds.

F. Assets, Liabilities and Net Position or Equity

1. Cash and Investments

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled cash are available upon demand and are considered to be "cash equivalents" when preparing these financial statements. All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

2. Property Taxes

Property taxes are levied by October 1, on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

3. Delinquent Taxes Receivable

Allowances for uncollectible tax receivables within the General Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

City of Sullivan City
Notes to Financial Statements
For the Year Ended September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories

The inventories are recorded at cost and are accounted for by the consumption method.

H. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as “internal balances.” All trade and property tax receivables are shown net of an allowance for uncollectible.

I. Transactions between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and other funds.

J. Capital Assets

Capital assets, which include land, buildings, furniture and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded in historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives. The estimated lives range from 5 to 15 years for furniture and equipment, 5 years for vehicles, 10 to 45 years for infrastructure, 20 to 45 years for water and sewer system assets, and 30 years for buildings.

Buildings	30 Years
Infrastructure	10-45 Years
Vehicles	5-10 Years
Water and Sewer System	20-45 Years
Machinery and Equipment	5-15 Years

K. Compensated Absences

It is the City’s policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for unpaid accumulated vacation leave since the City does have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. As of September 30, 2017, there was no liability for compensated absences.

L. Long-Term Obligations

In the government-wide, proprietary and component unit financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance cost are deferred and amortized over the life of the bonds using the straight line method as the amount is immaterial against the effective interest method. Unamortized bond premium and discount, issuance cost and gain or loss on refunding are not netted against the liability, but recorded in the asset portion of the financial statements. In the fund financial statements, long-term liabilities are not recorded in the governmental funds as the payment of the obligations will not be made by current financial resources. The governmental fund financial statements recognize the proceeds of debt as other financing resources.

City of Sullivan City
Notes to Financial Statements
For the Year Ended September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Restricted Assets

The proceeds and required reserves of debt issuances are recorded as restricted assets as they are restricted for debt service and/or capital projects, payments and /or purchases. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

N. Net Position / Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available or are legally restricted by outsource parties for use for a specific purpose.

O. Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

I. Budgetary Data

The City Council adopts an “appropriated budget” for the General Fund and certain Special Revenue Funds. In accordance with Government Accounting Standards Board (GASB) Statement #34, a City is required to present the adopted and final amended budget revenues and expenditures for the General Fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report is on page 27.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to October 1, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days’ public notice of the meeting must be given.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance by the Council. Once a budget is approved, it can only be formally amended by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings.
4. Each amendment must have Council approval. As required by law, such amendments are made before the fact, and are reflected in the official minutes of the Council, and are not made after fiscal year end. The City has a policy of careful budgetary control, however during the year, no amendments were necessary.
5. Budget amounts are as amended by the Council. All budget appropriations lapse at year end.

J. Excess of General Fund Expenditures below Appropriations

At September 30, 2017, The general fund total expenditures were above budget appropriations by \$592,414 and actual revenues exceeded budgeted revenues by \$295,315. Actual revenues for the year exceeded actual expenditures by \$313,831, after other financing sources.

Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None	Non-Applicable

Fund Balance

General fund had a surplus fund balance of \$57,184 due to excess of revenues over expenditures.

City of Sullivan City
Notes to Financial Statements
For the Year Ended September 30, 2017

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

General Fund's Fund Balance Policy

The City has adopted GASB 54 as part of its fiscal year reporting. Implementation of GASB 54 was required for all cities for their fiscal year ending 2013. The intention of GASB 54 is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of these classifications are prepaid items and inventories. In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
-
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the City Commissioners. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action.
-
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balances of the general fund that is not constrained for any particular purpose.

When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

III. DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2017, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investment) was \$529,875, while the bank balance was \$551,386. The City's cash deposits at September 30, 2017 and during the year ended September 30, 2017 was entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The Public Fund Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. The policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and the local policies.

Analysis of Specific Deposit and Investment Risks:

City of Sullivan City
Notes to Financial Statements
For the Year Ended September 30, 2017

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

III. DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS (continued)

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk. To limit the risk that changes in interest rates will adversely affect the fair value of investments; the City requires that the investments shall be monitored by using specific identification.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments to Certificates of Deposits, Public Funds Investment Pools and Guaranteed Investment Contracts, collateralized by U.S. Government Securities. As of September 30, 2017, the City's investments were secured by the U.S. Government Securities.

Custodial Credit Risk

Deposits and investments are exposed to custodial credit risk if they are not covered by the depository insurance and the deposits and investments are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. At year end, the City was not exposed to custodial credit risk.

Concentration of Credit Risk

To limit the risk of loss attributed to the magnitude of a government's investments in a single issuer, the investment portfolio shall be diversified in terms of investment instruments maturity scheduling, and financial institutions. To further limit the risk all the City investments are collateralized by U.S Government Securities

Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk

B. Disaggregation of Receivables

Receivables for the City at September 30, 2017 were as follows:

Governmental Funds	Accounts Receivable	Allowance for Uncollectible	Total (Net)
Property Taxes	\$ 216,909	\$ 14,552	\$ 202,357
Court Fines and Fees	686,814	343,407	343,407
Sales Taxes	69,010	-	69,010
Franchise Taxes	8,302	-	8,302
Grants and Other Receivables	592,073	-	592,073
	<u>\$ 1,573,108</u>	<u>\$ 357,959</u>	<u>\$ 1,215,149</u>

C. Deferred Inflows of Resources & Unearned Revenues

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the year, the various components of deferred revenue and unearned revenue reported in the fund financial statements were as follows:

City of Sullivan City
Notes to Financial Statements
For the Year Ended September 30, 2017

III. DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS (continued)

1. Deferred Inflows of Resources

Deferred Inflows Description	General Fund	Total
Property Taxes	\$ 163,112	\$ 163,112
Court Fines	366,231	366,231
Total	<u>\$ 529,343</u>	<u>\$ 529,343</u>
Total Deferred Inflows for Primary Government		<u>\$ 529,343</u>

2. Unearned Revenues

Unearned Revenues Description	General Fund	Total
Urban County Grant	\$ 883,120	\$ 883,120
Total	<u>\$ 883,120</u>	<u>\$ 883,120</u>
Total Unearned Revenues for Primary Government		<u>\$ 883,120</u>

D. Interfund Balances

The City reports interfund balances between many of its funds. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheets for governmental and enterprise funds. The interfund balances are operational and short-term in nature. Interfund balances at September 30, 2017 consisted of the following”

Due To	Due from				Totals
	General Fund	Economic Development	Crime Prevention	Capital Projects	
General Fund	\$ -	\$ 12,529	\$ 14,611	\$ -	\$ 27,140
Economic Dev. Corp.	11,997	-	-	-	11,997
Crime Prevention	181	-	-	-	181
Total Governmental Funds	<u>\$ 12,178</u>	<u>\$ 12,529</u>	<u>\$ 14,611</u>	<u>\$ -</u>	<u>\$ 39,318</u>

City of Sullivan City
Notes to Financial Statements
For the Year Ended September 30, 2017

III. DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS (continued)

E. Capital Assets

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

Capital Assets	9/30/2016	Additions	Retirements	9/30/2017
Land	\$ 34,726	\$ -	\$ -	\$ 34,726
Construction in Progress(Restated)	450,711	532,305	-	983,016
Building	9,422	-	-	9,422
Machinery/Equipment	241,414	94,550	-	335,964
Accum Dep. - Building	(9,422)	-	-	(9,422)
Accum Dep. - Machinery/Equipment	(137,691)	(39,664)	-	(177,355)
Net Capital Assets	\$ 589,160	\$ 587,191	\$ -	\$ 1,176,351

Depreciation expense was charged to functions of the governmental activities as follows:

Expenditures	Depreciation
	By Function
General Government	\$ 22,546
Public Safety	16,950
Culture and Recreation	168
Total Allocable Expenditures	\$ 39,664

F. Long Term Obligations

The following schedule summarizes the changes in long-term debt during year ended September 30, 2017

**City of Sullivan
Amortization Schedules for Long Term Debt**

	Motorola Solutions, Inc		Deere Lease, Inc.		Total Lease Payables	
	Principal	Interest	Principal	Interest	Principal	Interest
Balance 9/30/16	\$ 40,410	\$ -	\$ 40,229	\$ -	\$ 80,639	\$ -
Financing Lease	-	-	-	-	-	-
Payments	9,562	-	8,779	-	18,341	-
Ending Balance 9/30/17	30,848	-	31,450	-	62,298	-
2018	9,913	1,135	7,336	1,444	17,249	2,579
2019	10,278	770	7,673	1,107	17,951	1,877
2020	10,657	392	8,025	754	18,682	1,146
2021	-	-	8,416	386	8,416	386
	\$ 30,848	\$ 2,297	\$ 31,450	\$ 3,690	\$ 62,298	\$ 5,989

Financing Lease –\$40,410 lease payable; due in annual payments of \$11,049, including interest, through June 2020; interest at 3.68%.

City of Sullivan City
Notes to Financial Statements
For the Year Ended September 30, 2017

Financing Lease –\$40,229 note payable; due in annual payments of \$8,779; matures February 2021; interest at 4.5%

IV. OTHER INFORMATION

G. Prior Period Adjustment

A prior period adjustment was needed in order to properly state the correct balance for account receivables for franchise taxes. The adjustment was made as follows:

<u>Fund Level</u>		
General Fund- Adjustment to correct amounts in accounts payables from prior years.	\$	66,957
	<u>\$</u>	<u>66,957</u>
<u>Government Wide Level</u>		
Government Wide-Adjustment to correct amounts in note payables from prior years.	\$	(73,991)
	<u>\$</u>	<u>(73,991)</u>

H. Urban County

The City of Sullivan City and other municipalities in Hidalgo County participate in Hidalgo County's "Urban County" Program. By being designated as an "Urban County," Hidalgo County and the participating cities are entitled to receive a formula share of entitlement CDBG program funds from U.S. Department of Housing and Urban Development (HUD).

Monies received from HUD are allocated to the cities participating in the program based on agreed upon formulas. The County is responsible for the administration of the program and is ultimately responsible for including the grant activity related to the "Urban County Program" in its audit report (s) as per CDBG guidelines. All monies received from HUD on this program are handled by the County. The County pays the vendors or contractors directly for goods or services which benefit the different cities. The County also reimburses the cities for general administration cost incurred by those cities. The City received \$532,305 for expenses and improvements occurred between October 1, 2016 to September 30, 2017.

I. Litigation

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel and management that resolution of these matters will not have a material adverse effect on the financial condition of the City at September 30, 2017.

J. Commitments and Contingencies

Federal and State Funds – The City has received federal and state funds as grants and other financial assistance. These funds must be spent only as allowed by the grant and other federal or state requirements. Also, the City must follow various laws and regulations when they receive these funds. If the City does not abide by these laws and regulations or does not spend the monies, as allowed under the grant agreements, the City may be required to return the grant monies, or portion thereof, to the granting agencies. The contingent liability, if any, that may be due to the federal and state agencies, cannot be readily determined.

K. Risk Management

The City is exposed to various risk of loss related to torts, theft, damage, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2017, the City has maintained general liability coverage at a cost that is considered to be economically justifiable by joining together with the governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however each category of coverage has its own level of reinsurance. The city continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

L. Subsequent Events

For the purposes of reporting subsequent events, management has considered events occurring up to June 27, 2018, the date the report was available to be issued. No further subsequent events were noted.

Required Supplementary Information

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

City of Sullivan City, Texas
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended September 30, 2017

	Budgeted Amounts		Actual Budget Basis	Variance Favorable (Unfavorable) Final to
	Original	Final		
Revenues				
Property Taxes	\$ 402,786	\$ 402,786	\$ 435,852	\$ 33,066
Franchises Taxes	90,660	90,660	96,597	5,937
Sales Taxes	166,000	166,000	137,692	(28,308)
Intergovernmental	56,214	56,214	53,193	(3,021)
Permits and Fees	299,541	299,541	302,685	3,144
Fines and Forfeitures	345,000	345,000	333,865	(11,135)
Other Revenues	207,650	207,650	29,586	(178,064)
Other Governments-Urban County	-	-	532,305	532,305
Total Revenues	<u>1,567,851</u>	<u>1,567,851</u>	<u>1,921,775</u>	<u>353,923</u>
Other Financing Sources				
Transfers from other funds	-	-	40,092	40,092
Total Revenues and Other Financing Sources	<u>1,567,851</u>	<u>1,567,851</u>	<u>1,961,867</u>	<u>394,015</u>
Expenditures				
City Council	4,500	4,500	2,794	(1,706)
General Government	526,301	526,301	529,201	2,900
Public Safety	680,612	680,612	594,800	(85,812)
Municipal Court	232,940	232,940	225,330	(7,610)
Cemetery	4,032	4,032	1,517	(2,515)
Capital Outlay	119,466	119,466	532,305	412,839
Debt - Principal	40,029	40,029	17,249	(22,780)
Debt - Interest	-	-	1,487	1,487
Total Expenditures	<u>1,607,880</u>	<u>1,607,880</u>	<u>1,904,682</u>	<u>295,315</u>
Other Financing Uses				
Transfers to other funds	-	-	-	-
Total Expenditures and Other Financing Uses	<u>1,607,880</u>	<u>1,607,880</u>	<u>1,904,682</u>	<u>295,315</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(40,029)</u>	<u>(40,029)</u>	<u>57,184</u>	<u>98,699</u>
Net Change in Fund Balance	<u>(40,029)</u>	<u>(40,029)</u>	<u>57,184</u>	<u>98,699</u>
<i>Fund Balance-September 30, 2016</i>	(264,598)	(264,598)	546,251	281,653
<i>Prior Period Adjustment</i>	-	-	(66,957)	(66,957)
Fund Balance- September 30, 2017	<u>\$ (304,627)</u>	<u>\$ (304,627)</u>	<u>\$ 536,478</u>	<u>\$ 380,352</u>

The notes to these statements are an integral part of these statements.

Internal Control / Compliance Section



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Oscar R. González
Melissa González

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 City Council and City Manager of
City of Sullivan City, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sullivan City, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Sullivan City, Texas's basic financial statements and have issued our report thereon dated June 27, 2018.

Internal Control over Financial Reporting

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

Our 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. They are listed as items # 2016-1, #2016-2, and #2016-3.

Compliance and Other Matters

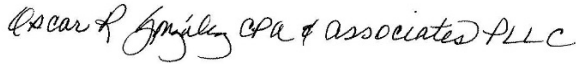
As part of obtaining reasonable assurance about whether The City of Sullivan City, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Sullivan City, Texas’s Response to Findings

City of Sullivan City, Texas’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Sullivan City, Texas’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Handwritten signature of Oscar R. Gonzalez in cursive, followed by the text "CPA & Associates PLLC".

Oscar R. Gonzalez, CPA & Associates, PLLC
Certified Public Accountants

Pharr, Texas
June 27, 2018

City of Sullivan City
Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

SUMMARY OF AUDITOR RESULTS

I. Financial Statement Audit

- A. The auditor's report expressed an unqualified opinion on general purpose financial statements.
- B. Significant deficiencies disclosed during the audit of the general purpose financial statements. Items are listed as #2016-1, #2016-2 and, #2016-3
- C. No instance(s) of non-compliance material to the general purpose financial statements of City of Sullivan City, which would be required to be reported in accordance with Government Auditing standards, was disclosed during the audit.
- D. City of Sullivan City did not qualify for a single audit within the context of OMB-Circular A-133 or the OMB-Uniform Guidance.

II. Financial Statement Findings

Schedule Reference: (2017-1) Closing of Financial Statements

Criteria: Controls relative to timely and accurate close-out of financial statements at year-end should be in place, in order to provide management and other third-party stakeholders with the necessary financial information to make appropriate decisions, and to ensure compliance with federal, state, and local reporting deadlines.

Condition: The City did not post various significant entries required at year-end. These entries impacted the balance sheet.

Effect: Timely and accurate financial statements in accordance with GAAP were not available during the year, and at year-end. As such, monitoring of budget versus actual activity in the expenditures incurred and revenues realized may have been compromised, as well as other key decision-making processed based on financial statements.

Recommendation: The City should review its internal controls relating to financial statement accounting and reporting to ensure that timely financial statements in accordance with GAAP are prepared and available for management use, as well as for audit purposes.

Auditee's Response: The City will review internal controls related this area and will make a recommendation to management. The contact number is 956-485-2828.

Schedule Reference: (2017-2) Fixed Assets

Criteria: A City's capital assets typically represent the entity's most significant assets and have a significant impact on financial statements.

Condition: A physical inventory of the City's capital assets has not been performed periodically. Additionally, subsidiary records for capital assets were not reconciled to the general ledger on a timely basis. This would include depreciation schedules.

Effect: The City's perpetual records for accounting for capital assets may not accurately reflect capital assets on hand and accumulated depreciation during the year and at year-end unless all pertinent record are updated accordingly.

Recommendation: The City should update perpetual records (general ledgers) to reflect the results of the physical inventory. Additionally, depreciation records should also be updated in order to allow for an accurate annual calculation.

Auditee's Response: The City will review internal controls related this area and will make a recommendation to management. The contact number is 956-485-2828.

Schedule Reference: (2017-3) Accounts Payable

Criteria: A City's accounts payables typically represent the entity's current obligations and have a significant impact on financial statements. Controls relative to produce a timely and accurate listing of accounts payable should be in place, in order to provide management and other third-party stakeholders with the necessary financial information to make appropriate decisions, and to ensure financial accountability.

Condition: Subsidiary records for accounts payables were not reconciled to the general ledger on a timely basis. This would include payment schedules for any settlement agreements.

Effect: The City's records for accounting for accounts payable may not accurately reflect amounts owed during the year and at year-end unless all pertinent records are updated accordingly.

Recommendation: The City should update vendor records (general ledgers) to reflect the results of the vendor balances.

Auditee's Response: The City will review internal controls related this area and will make a recommendation to management. The contact number is 956-485-2828.

City of Sullivan City, TX
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2017

SUMMARY OF AUDITOR RESULTS – PRIOR FISCAL YEAR

A. Financial Statement Findings – Prior Fiscal Year

Schedule Reference: (2017-1) Closing of Financial Statements

Criteria: Controls relative to timely and accurate close-out of financial statements at year-end should be in place, in order to provide management and other third-party stakeholders with the necessary financial information to make appropriate decisions, and to ensure compliance with federal, state, and local reporting deadlines.

Condition: The City did not post various significant entries required at year-end. These entries impacted the balance sheet.

Effect: Timely and accurate financial statements in accordance with GAAP were not available during the year, and at year-end. As such, monitoring of budget versus actual activity in the expenditures incurred and revenues realized may have been compromised, as well as other key decision-making processed based on financial statements.

Recommendation: The City should review its internal controls relating to financial statement accounting and reporting to ensure that timely financial statements in accordance with GAAP are prepared and available for management use, as well as for audit purposes.

Auditee's Response: The City will review internal controls related this area and will make a recommendation to management. The contact number is 956-485-2828.

Current Status: Not Corrected. Refer to current year findings.

Schedule Reference: (2016-2) Fixed Assets

Criteria: A City's capital assets typically represent the entity's most significant assets and have a significant impact on financial statements.

Condition: A physical inventory of the City's capital assets has not been performed periodically. Additionally, subsidiary records for capital assets were not reconciled to the general ledger on a timely basis. This would include depreciation schedules.

Effect: The City's perpetual records for accounting for capital assets may not accurately reflect capital assets on hand and accumulated depreciation during the year and at year-end unless all pertinent record are updated accordingly.

Recommendation: The City should update perpetual records (general ledgers) to reflect the results of the physical inventory. Additionally, depreciation records should also be updated in order to allow for an accurate annual calculation.

Auditee's Response: The City will review controls related this area and will make recommendation to management. The contact number is 956-485-2828.

Current Status: Not Corrected. Refer to current year findings.