

**CITY OF CHILDRESS, TEXAS**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**City of Childress, Texas**  
 Annual Financial Report  
 for the Year Ended September 30, 2017

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## INDEPENDENT AUDITOR'S REPORT

Mayor and City Council  
City of Childress, Texas  
Childress, Texas

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Childress, Texas, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, 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 schedule on the Texas Municipal Retirement System on pages 3-8 and 41-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Childress, Texas' basic financial statements. The statistical section is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statistical section is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statistical section is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2018, on our consideration of the City of Childress, Texas' 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 City of Childress, Texas' internal control over financial reporting and compliance.



Foster & Lambert L.L.C.  
June 11, 2018

## CITY OF CHILDRESS, TEXAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2017

The City was incorporated on May 22, 1922. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter; public safety (police and fire), highways and streets, sanitation, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services.

#### **Discretely Presented Unit**

Childress Economic Development Corporation - The activities of the Childress Economic Development Corporation are included in the City's accompanying financial statements as a component unit. This Corporation is a separate nonprofit governmental unit administered by a five-member board and the City's mayor and city manager as ex officio members. The City exercises significant oversight in approving budgets, corporate records, and accounting records of the Corporation.

The City of Childress Housing Finance Corporation - The City of Childress has created the City of Childress Housing Finance Corporation. The Corporation has been formed to develop a means of financing the cost of residential ownership and development that will provide decent, safe and sanitary housing for low and moderate income residents of the City. The Corporation is a separate proprietary unit administered by a five-member board appointed by the City Council. The City exercises significant oversight in approving budgets, accounting, and corporate records.

#### **Economic Conditions and Outlook**

Childress' population as reported by the U.S. Census Bureau in the year 2010 was 6,938. This represents an increase of 160 or 2.4% over the 2000 census. This increase is realized from businesses entering Childress and the general improvement in our local economy. It may also be noted that Childress tax valuation has increased approximately 15% over last year. This is a trend that has been taking place in Childress for the past several consecutive years. Through the efforts of Childress City Council, Commissioners Court, the Childress Economic Development Corporation and others, more growth in our community is expected next year. Retail sales taxes are expected to continue to increase this year over last year at about 4%. This will bring our five-year total combined increases to approximately 25%. Childress County is again making strides in energy sector infrastructure with the construction of a new solar farm east of town beginning in late 2018. The construction of this facility will include 300 temporary jobs and approximately 20 permanent positions. This new facility will have an appraisal value of around \$400 million. This will definitely have a positive impact on the economic conditions for Childress. Sales and Hotel taxes are on pace for about a 5% increase over last year. The new solar farm should cause an uncharacteristic increase in both of these areas for the next 18 months. The City of Childress is finally out of stage 4 water restrictions. We are hoping to regain the 25% of water sales we lost during the over four years of water restrictions. Adjustments to water rates are being made for water users who use over 5,000 gallons a month. This additional income will put the City in a healthier cash-flow position for the future. The Childress Economic Development Corporation has opened a business incubator that serves startup businesses not only in Childress but the surrounding 10 county regional area. The City of Childress has opened the 80,000 square foot indoor all-purpose arena with a 12,000 square foot expo center. This facility is funded with hotel occupancy taxes, and will help to make Childress an overnight destination community. In its first few months of operation this facility has hosted Youth Club Events, Wedding Receptions, School-related Events, Community Enrichment Activities, Concerts, Trade Shows, Craft Shows, Western Events, Sporting Events, as well as a couple of Conferences. Third-Party analysis suggest that this type of facility could add 15 people to the workforce and about \$1,000,000 to the local economy. The City of Childress opened Stoney Ridge Golf Course and Recreational Complex in 2008. This facility is serving the City of Childress and surrounding areas with over seven thousand non-member rounds of golf, as well as tournaments for high school golf, junior golf,

civic organizations, non-profit groups and corporate outings. With the addition of The Grill on the Green restaurant, the facility now offers the total golfing and recreational experience. Stoney Ridge is providing stimulation for our growing economy. In addition to Stoney Ridge, the City of Childress, with the assistance of Texas Parks & Wildlife, has also opened the Childress ATV & Moto-Cross Park. This park features 30 miles of riding trails and a mile and a quarter-mile professional style moto-cross track complete with starting gates, table tops and rhythm sections. The City of Childress is planning to host various races including; moto-cross, grand prix, enduro and team events. This facility has had over two thousand non-resident visitors and we believe that it will continue to grow and have a positive impact on our local economy.

Several individuals and local businesses have begun a revitalization of our downtown area. In January of 2013, Childress became an official Texas Main Street Community. With this accreditation, business owners will receive free architectural design assistance and matching grants to help improve their buildings' curb appeal. Many new businesses are now downtown housed in newly remodeled buildings. This too serves to stimulate our economy. All of this equates to increased ad valorem tax dollars for our City as well as an increase in sales tax. We expect the trend to continue.

The Childress Regional Medical Center has completed new physical therapy and MRI facilities and has plans for more renovations. The hospital and clinic bring many people to Childress for healthcare. These people also shop, eat, buy gasoline, and some stay overnight. This has a very positive offset on our local economy.

#### **Major initiatives**

The fiscal year 2016-17 final budgeted revenues increased \$430,050 over original budget and expenditures increased \$287,880 from the original budget. Actual revenues were under budget by \$864,252; expenditures were more than budget by \$339,319. Net change in fund balance was \$80,301 more than budgeted, after loan proceeds and operating transfers.

## Financial Analysis

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of the City of Childress, Texas, assets and deferred outflows exceeded liabilities and deferred inflows by \$5,458,925 at the close of this fiscal year.

### Condensed Statement of Net Position

	Governmental Activities 2016	Governmental Activities 2017	Business- type Activities 2016	Business- type Activities 2017	Total 2016	Total 2017
Current and other assets	\$ 546,650	\$ 495,804	\$ 327,571	\$ 483,860	\$ 874,222	\$ 979,664
Capital assets	10,726,606	10,683,501	2,370,136	2,389,780	13,096,741	13,073,281
Total assets	<u>11,273,256</u>	<u>11,179,305</u>	<u>2,697,707</u>	<u>2,873,640</u>	<u>13,970,963</u>	<u>14,052,945</u>
Deferred outflow of resources	<u>517,529</u>	<u>489,926</u>	<u>202,511</u>	<u>201,734</u>	<u>720,040</u>	<u>691,660</u>
Long-term liabilities	6,167,005	6,277,663	1,629,230	1,741,186	7,796,235	8,018,849
Other liabilities	310,734	576,108	976,787	685,180	1,287,521	1,261,288
Total liabilities	<u>6,477,739</u>	<u>6,853,771</u>	<u>2,606,017</u>	<u>2,426,366</u>	<u>9,083,756</u>	<u>9,280,137</u>
Deferred inflow of resources	<u>5,324</u>	<u>3,926</u>	<u>2,083</u>	<u>1,617</u>	<u>7,407</u>	<u>5,543</u>
Net Position:						
Invested in capital assets	6,381,808	6,258,679	1,433,608	1,415,035	7,815,416	7,673,714
Restricted	144,162	155,184	-	-	144,162	155,184
Unrestricted	<u>(1,218,248)</u>	<u>(1,602,329)</u>	<u>(1,141,490)</u>	<u>(767,644)</u>	<u>(2,359,738)</u>	<u>(2,369,973)</u>
Total net position	<u>\$ 5,307,722</u>	<u>\$ 4,811,534</u>	<u>\$ 292,118</u>	<u>\$ 647,391</u>	<u>\$5,599,840</u>	<u>\$5,458,925</u>

Analysis of the City's Operations – Governmental and Business-type activities decreased the City's net position by \$140,915. The key elements of this decrease are as follows:

### Changes in Net Position

	Governmental Activities 2016	Governmental Activities 2017	Business- type Activities 2016	Business- type Activities 2017	Total 2016	Total 2017
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 947,804	\$ 884,759	\$3,775,835	\$3,641,449	\$ 4,723,639	\$ 4,526,208
Operating grants and contributions	-	25,000	-	-	-	25,000
Capital grants and contributions	89,616	293,069	-	-	89,616	293,069
<b>General revenues:</b>						
Property taxes	1,055,502	1,268,010	-	-	1,055,502	1,268,010
Sales taxes	786,640	802,895	-	-	786,640	802,895
Other taxes	554,876	549,449	-	-	554,876	549,449
Investment income	1,820	1,910	-	87	1,820	1,997
Other income	171,705	98,550	-	-	171,705	98,550
<b>Total revenues</b>	<u>3,607,963</u>	<u>3,923,642</u>	<u>3,775,835</u>	<u>3,641,536</u>	<u>7,383,798</u>	<u>7,565,178</u>
<b>Expenses:</b>						
General government	352,072	248,384	-	-	352,072	248,384
Street	369,543	393,323	-	-	369,543	393,323
<b>Public safety:</b>						
Police	1,178,705	1,301,471	-	-	1,178,705	1,301,471
Fire	591,515	698,215	-	-	591,515	698,215
Health	54,430	83,256	-	-	54,430	83,256
Park	443,771	524,671	-	-	443,771	524,671
Cemetery	68,149	38,567	-	-	68,149	38,567
Airport	150,464	50,887	-	-	150,464	50,887
ATV Park	105,859	158,135	-	-	105,859	158,135
Golf Course	816,058	844,989	-	-	816,058	844,989
Interest on long-term debt	158,057	152,409	-	-	158,057	152,409
Water	-	-	2,599,722	2,567,395	2,599,722	2,567,395
Trash	-	-	690,930	552,177	690,930	552,177
Shop	-	-	97,846	92,214	97,846	92,214
<b>Total expenses</b>	<u>4,288,623</u>	<u>4,494,307</u>	<u>3,388,498</u>	<u>3,211,786</u>	<u>7,677,121</u>	<u>7,706,093</u>
Increase (decrease) in net position before transfers	(680,660)	(570,665)	387,337	429,750	(293,323)	(140,915)
Transfers	736,567	74,477	(736,567)	(74,477)	-	-
<b>Increase in net position</b>	<u>55,907</u>	<u>(496,188)</u>	<u>(349,230)</u>	<u>355,273</u>	<u>(293,323)</u>	<u>(140,915)</u>
Net position – beginning	5,251,815	5,307,722	641,348	292,118	5,893,163	5,599,840
<b>Net position – ending</b>	<u>\$ 5,307,722</u>	<u>\$ 4,811,534</u>	<u>\$ 292,118</u>	<u>\$ 647,391</u>	<u>\$ 5,599,840</u>	<u>\$ 5,458,925</u>

### Financial Analysis of the Government's Funds

Governmental funds show an increase to net position for the 2016-17 year of \$51,085. A large portion of this increase is due to intergovernmental revenues.



**Capital Assets and Debt Administration**

Capital Assets

The City's investment in capital assets for its government-wide activities as of September 30, 2017, amounts to \$13,073,281 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and improvements.

**Capital Assets at Year-end  
(Net of Depreciation)**

	Governmental Activities 2016	Governmental Activities 2017	Business- type Activities 2016	Business- type Activities 2017	Total 2016	Total 2017
Land	\$ 865,366	\$ 865,366	\$ 39,722	\$ 39,722	\$ 905,088	\$ 905,088
Buildings and improvements	8,577,572	8,495,423	2,030,684	1,919,851	9,733,908	10,415,274
Equipment	1,283,668	1,322,712	299,730	430,207	1,600,283	1,752,919
Totals	<u>\$10,726,606</u>	<u>\$10,683,501</u>	<u>\$2,370,136</u>	<u>\$2,389,780</u>	<u>\$12,239,279</u>	<u>\$13,073,281</u>

This year's major additions included:

Governmental activities:	
Event center	\$ 118,191
2015 Freightliner Fire Truck	262,991
Breathing compressor	35,860
ATV Park improvements	23,467
Tennis court improvements	40,830
Business-type Activities:	
816F Caterpillar compactor	155,533
Overhaul 963C Caterpillar Dozer	48,346

Debt

At year-end, the City had \$5,477,415, of certificates of obligation, notes payable, and leases payable as shown below:

**Outstanding Debt, at Year-end**

	Governmental Activities 2016	Governmental Activities 2017	Business-type Activities 2016	Business-type Activities 2017	Total 2016	Total 2017
Certificates of obligation	\$3,872,000	\$3,617,000	\$ -	\$ -	\$3,872,000	\$3,617,000
Notes payable	472,798	407,668	896,221	847,477	1,369,019	1,255,145
Lease payable	220,698	400,154	122,013	205,116	342,711	605,270
	<u>\$4,565,496</u>	<u>\$4,424,822</u>	<u>\$1,018,234</u>	<u>\$1,052,593</u>	<u>\$5,583,730</u>	<u>\$5,477,415</u>

## **Economic Factors for Next Year**

The City's elected and appointed officials considered many factors when preparing the fiscal year 2017-2018 budget. One factor that plays a strong role is the economy. Childress has experienced population and economic growth which has stimulated local business and development activity. The community has also placed additional demands on the City to maintain or enhance services which are provided to our citizens. The population continues to grow at a slow but steady pace. The increased growth in population and businesses creates an increase in our ad valorem tax valuations. We also expect another slight increase in sales tax revenue next year. This has been the trend for the past several years. We have also experienced a trend where all revenue has increased over the past several years; we expect that trend to continue.

The City has been awarded a Community Development Block Grant for \$275,000, for improvements to the lift station, this project is expected to begin in the 2017-18 fiscal year. The City has plans for other improvements to the water and sewer facilities in the coming years, these projects will be accomplished through the assistance of state agencies with grant funding and also the City has increase commercial water rates and implemented a 10 year plan to increase commercial sewer rates incrementally to cover the costs of the infrastructure upgrades needed.

## **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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Childress, Texas, P.O. Box 1087, Childress, Texas 79201.

**CITY OF CHILDRESS, TEXAS**

STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

	Primary Government			Component Unit
	Governmental	Business-type	Total	Childress
	Activities	Activities		Economic Development Corporation
<b>Assets</b>				
Cash and cash equivalents	\$ 600	\$ 600	\$ 1,200	\$ 30,842
Receivables (net of allowances for uncollectibles)	300,254	382,708	682,962	93,325
Due from component unit	8,346	-	8,346	-
Inventory	18,078	-	18,078	-
Restricted assets:				
Cash and cash equivalents	168,526	22,704	191,230	517,306
Capital assets (net of accumulated depreciation):				
Land	865,366	39,722	905,088	145,403
Buildings and improvements	8,495,423	1,919,851	10,415,274	1,304,774
Equipment	1,322,712	430,207	1,752,919	11,325
Landfill permit, net of accumulated amortization	-	77,848	77,848	-
Total assets	<u>11,179,305</u>	<u>2,873,640</u>	<u>14,052,945</u>	<u>2,102,975</u>
<b>Deferred Outflow of Resources</b>				
Pension expenditures	<u>489,926</u>	<u>201,734</u>	<u>691,660</u>	<u>28,819</u>
<b>Liabilities</b>				
Accounts payable and other current liabilities	129,083	236,829	365,912	3,567
Accrued interest payable	70,911	5,296	76,207	-
Accrued wages payable	16,872	7,416	24,288	403
Compensated absences -current	10,395	2,952	13,347	504
Note payable	507,528	-	507,528	-
Payable to government agencies	-	9,723	9,723	-
Due to primary government	-	-	-	8,346
Customer deposits-payable from restricted assets	-	122,620	122,620	-
Note payable-current portion	51,481	36,397	87,878	-
Lease payable-current portion	125,727	75,096	200,823	-
Certificate of obligation payable-current portion	262,000	-	262,000	-
Long-term liabilities:				
Estimated liability for landfill closure and postclosure care costs	-	303,296	303,296	-
Net pension obligation	1,600,601	659,071	2,259,672	94,153
Compensated absences-net of current portion	93,559	26,570	120,129	4,535
Note payable-net of current portion	356,187	811,080	1,167,267	-
Lease payable-net of current portion	274,427	130,020	404,447	-
Certificate of obligation payable- net of current portion	3,355,000	-	3,355,000	-
Total liabilities	<u>6,853,771</u>	<u>2,426,366</u>	<u>9,280,137</u>	<u>111,508</u>
<b>Deferred Inflow of Resources</b>				
Pension expenditures	<u>3,926</u>	<u>1,617</u>	<u>5,543</u>	<u>231</u>
<b>Net Position</b>				
Invested in capital assets, net of related debt	6,258,679	1,415,035	7,673,714	1,450,177
Restricted				
Debt service	74,016	-	74,016	-
Capital expenditures	67,961	-	67,961	-
Public safety	13,207	-	13,207	-
Economic development	-	-	-	569,878
Unrestricted	(1,602,329)	(767,644)	(2,369,973)	-
Total net position	<u>\$ 4,811,534</u>	<u>\$ 647,391</u>	<u>\$ 5,458,925</u>	<u>\$ 2,020,055</u>

The accompanying notes are an integral part of this statement.

**CITY OF CHILDRESS, TEXAS**  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Economic Development
					Governmental Activities	Business-type Activities		
<b>Primary Government</b>								
Governmental activities:								
General government	\$ 248,384	\$ -	\$ -	\$ -	\$ (248,384)	\$ (248,384)	\$ -	
Street	393,323	6,561	-	-	(386,762)	(386,762)	-	
Public safety:								
Police	1,301,471	338,822	25,000	-	(937,649)	(937,649)	-	
Fire	698,215	3,918	-	200,000	(494,297)	(494,297)	-	
Health	83,256	113,063	-	-	29,807	29,807	-	
Park	524,671	54,258	-	64,840	(405,573)	(405,573)	-	
Cemetery	38,567	19,770	-	-	(18,797)	(18,797)	-	
Airport	50,887	81,437	-	-	30,550	30,550	-	
ATV park	158,135	4,566	-	28,229	(125,340)	(125,340)	-	
Golf course	844,989	262,364	-	-	(582,625)	(582,625)	-	
Interest on long-term debt	152,409	-	-	-	(152,409)	(152,409)	-	
Total governmental activities	4,494,307	894,759	25,000	293,069	(3,291,479)	(3,291,479)	-	
Business-type activities:								
Water and sewer	2,659,609	2,864,776	-	-	205,167	205,167	-	
Trash	552,177	776,673	-	-	224,496	224,496	-	
Total business-type activities	3,211,786	3,641,449	-	-	429,663	429,663	-	
Total primary government	\$ 7,706,093	\$ 4,526,208	\$ 25,000	\$ 293,069	\$ (3,291,479)	\$ (2,861,816)	\$ -	
<b>Component Unit</b>								
Economic Development	\$ 368,370	\$ 72,404	\$ -	\$ -	\$ -	\$ -	\$ (295,966)	
Total Component Units	\$ 368,370	\$ 72,404	\$ -	\$ -	\$ -	\$ -	\$ (295,966)	
General revenues:								
Property taxes					1,268,010	1,268,010	-	
Sales taxes					802,895	802,895	401,377	
Franchise taxes					182,886	182,886	-	
Other taxes					366,563	366,563	-	
Unrestricted investment earnings					87	87	6,200	
Other income					98,550	98,550	17,571	
Transfers					74,477	74,477	-	
Total general revenues and transfers					2,795,291	2,720,901	425,148	
Change in net position					(496,188)	(140,915)	129,182	
Net position - October 1					5,307,722	5,599,840	1,890,873	
Net position - September 30					\$ 4,811,534	\$ 5,458,925	\$ 2,020,055	

The accompanying notes are an integral part of this statement.

**CITY OF CHILDESS, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**  
**WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016**

	2017			2016	
	General Fund	Capital Projects Fund	Debt Service Fund	Total Government Funds	Total Government Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 600	\$ -	\$ -	\$ 600	\$ 600
Receivables (net of allowances for uncollectibles)	297,158	-	3,096	300,254	345,661
Restricted assets:					
Cash and cash equivalents	86,622	10,984	70,920	168,526	153,032
Due from other funds	-	-	635,831	635,831	402,495
Due from component unit	2,062	-	-	2,062	13,306
Inventory	18,078	-	-	18,078	27,658
<b>Total assets</b>	<u>404,520</u>	<u>10,984</u>	<u>709,847</u>	<u>1,125,351</u>	<u>942,752</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and other current liabilities	129,083	-	-	129,083	233,575
Accrued wages payable	16,872	-	-	16,872	14,201
Due to other funds	518,526	117,304	-	635,830	402,495
<b>Total liabilities</b>	<u>664,481</u>	<u>117,304</u>	<u>-</u>	<u>781,785</u>	<u>650,271</u>
<b>Fund balances:</b>					
Nonspendable	18,078	-	-	18,078	27,658
Restricted for:					
Debt service	-	-	709,847	709,847	404,338
Police department	13,207	-	-	13,207	64,731
Street improvement	67,961	-	-	67,961	3,443
Assigned for:					
Capital improvements	5,455	-	-	5,455	5,427
Unassigned	(364,662)	(106,320)	-	(470,982)	(213,116)
<b>Total fund balances</b>	<u>(259,961)</u>	<u>(106,320)</u>	<u>709,847</u>	<u>343,566</u>	<u>292,481</u>
<b>Total liabilities and fund balances</b>	<u>\$ 404,520</u>	<u>\$ 10,984</u>	<u>\$ 709,847</u>		<u>\$ 942,752</u>

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,683,500
Included in the items related to position is the recognition of the City's proportionate share of the net pension liability required by GASB 68 in the amount of \$1,600,601, a deferred inflow of \$3,926, and a deferred outflow of \$489,926. The net effect of this is to decrease net position.	(1,114,601)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but is recognized as an expenditure when due.	(5,100,931)
<b>Net position of governmental activities</b>	<u>\$ 4,811,534</u>

The accompanying notes are an integral part of this statement.

**CITY OF CHILDRESS, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**  
**WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016**

	2017			2016	
	General Fund	Capital Projects Fund	Debt Service Fund	Total Government Funds	Total Government Funds
<b>Revenues</b>					
<b>Taxes:</b>					
Property	\$ 618,057	\$ -	\$ 649,953	\$ 1,268,010	\$ 1,055,502
Sales	802,895	-	-	802,895	786,640
Franchise	182,886	-	-	182,886	189,104
Other	214,195	-	152,368	366,563	365,772
Fines and forfeitures	428,260	-	-	428,260	465,965
Fees, licenses, and permits	263,865	-	-	263,865	199,186
Leases and rentals	116,369	-	-	116,369	89,148
Aviation fuel sales	3,862	-	-	3,862	63,331
Pro Shop sales	48,632	-	-	48,632	38,048
Interest income	1,529	267	114	1,910	1,820
Intergovernmental revenues	293,229	-	-	293,229	89,616
Other income	153,357	-	-	153,357	263,831
Total revenues	<u>3,127,136</u>	<u>267</u>	<u>802,435</u>	<u>3,929,838</u>	<u>3,607,963</u>
<b>Expenditures</b>					
<b>Current:</b>					
General government	238,529	-	-	238,529	347,054
Street	335,184	-	-	335,184	315,806
<b>Public safety:</b>					
Police	1,172,851	-	-	1,172,851	1,080,329
Fire	620,102	-	-	620,102	530,873
Health	73,874	-	-	73,874	53,438
Park	455,043	-	-	455,043	398,221
Cemetery	37,863	-	-	37,863	65,779
Airport	14,536	-	-	14,536	108,463
ATV park	50,656	-	-	50,656	1,252
Golf course	680,745	-	-	680,745	666,314
<b>Debt service:</b>					
Principal	164,385	-	275,211	439,596	421,250
Interest	10,875	-	133,583	144,458	158,586
Capital outlay	473,310	8,000	-	481,310	1,323,025
Total expenditures	<u>4,327,953</u>	<u>8,000</u>	<u>408,794</u>	<u>4,744,747</u>	<u>5,470,390</u>
Excess of revenues over (under) expenditures	<u>(1,200,817)</u>	<u>(7,733)</u>	<u>393,641</u>	<u>(814,909)</u>	<u>(1,862,427)</u>
<b>Other financing sources (uses)</b>					
Loan proceeds	806,449	-	-	806,449	290,000
Operating transfers (net)	207,423	(59,746)	(88,132)	59,545	714,687
Total other financing sources (uses)	<u>1,013,872</u>	<u>(59,746)</u>	<u>(88,132)</u>	<u>865,994</u>	<u>1,004,687</u>
Net change in fund balance	(186,945)	(67,479)	305,509	51,085	(857,740)
Fund balance - October 1	<u>(73,016)</u>	<u>(38,841)</u>	<u>404,338</u>	<u>292,481</u>	<u>1,150,221</u>
Fund balance - September 30	<u>\$ (259,961)</u>	<u>\$ (106,320)</u>	<u>\$ 709,847</u>	<u>\$ 343,566</u>	<u>\$ 292,481</u>

The accompanying notes are an integral part of this statement.

**CITY OF CHILDRESS, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE OF**  
**GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30,2017**

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

Net change in fund balances-total governmental funds	\$ 51,085
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceed capital outlays in the current period.	(51,106)
The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(344,263)
The implementation of GASB 68 required that certain expenditures be de-expensed and recorded as deferred resource outflows. The City's share of the unrecognized deferred inflows and outflows for TMRS as of the measurement date had to be amortized. The net effect is to decrease net position.	(151,904)
Changes in net position of governmental activities	<u>\$ (496,188)</u>

The accompanying notes are an integral part of this statement.

**CITY OF CHILDRESS, TEXAS**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**  
**WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016**

	2017			Variance with Final Budget- Positive (Negative)	2016
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>Revenues</b>					
Taxes:					
Property	\$ 1,108,738	\$ 1,408,443	\$ 618,057	\$ (790,386)	\$ 899,973
Sales	760,000	760,000	802,895	42,895	786,640
Franchise	235,000	235,000	182,886	(52,114)	189,104
Other	455,000	455,000	214,195	(240,805)	365,772
Fines and forfeitures	397,500	425,000	428,260	3,260	465,965
Fees, licenses, and permits	279,500	243,045	263,865	20,820	199,186
Leases and rentals	43,200	99,000	116,369	17,369	89,148
Aviation fuel sales	-	-	3,862	3,862	63,331
Pro Shop sales	60,000	60,000	48,632	(11,368)	38,048
Interest income	1,500	1,500	1,529	29	1,043
Intergovernmental revenues	188,000	271,500	293,229	21,729	49,616
Other income	32,900	32,900	153,357	120,457	263,831
Total revenues	<u>3,561,338</u>	<u>3,991,388</u>	<u>3,127,136</u>	<u>(864,252)</u>	<u>3,411,657</u>
<b>Expenditures</b>					
Current:					
General government	248,578	294,535	238,529	56,006	347,054
Street	418,009	400,000	335,184	64,816	315,806
Public safety:					
Police	930,521	1,113,161	1,172,851	(59,690)	1,080,329
Fire	509,099	560,578	620,102	(59,524)	530,873
Health	106,659	85,000	73,874	11,126	53,438
Park	264,774	386,000	455,043	(69,043)	398,221
Cemetery	157,574	50,000	37,863	12,137	65,779
Airport	12,000	17,300	14,536	2,764	108,463
ATV park	47,750	47,750	50,656	(2,906)	1,252
Golf course	573,730	675,000	680,745	(5,745)	666,314
Debt service:					
Principal	117,060	117,060	164,385	(47,325)	176,250
Interest	-	-	10,875	(10,875)	14,820
Capital outlay	315,000	242,250	473,310	(231,060)	260,709
Total expenditures	<u>3,700,754</u>	<u>3,988,634</u>	<u>4,327,953</u>	<u>(339,319)</u>	<u>4,019,308</u>
Excess of revenues over expenditures	<u>(139,416)</u>	<u>2,754</u>	<u>(1,200,817)</u>	<u>(1,203,571)</u>	<u>(607,651)</u>
<b>Other financing sources (uses)</b>					
Loan proceeds	-	-	806,449	806,449	290,000
Operating transfers (net)	<u>(270,000)</u>	<u>(270,000)</u>	<u>207,423</u>	<u>477,423</u>	<u>112,690</u>
Total other financing sources (uses)	<u>(270,000)</u>	<u>(270,000)</u>	<u>1,013,872</u>	<u>1,283,872</u>	<u>402,690</u>
Net change in fund balance	(409,416)	(267,246)	(186,945)	80,301	(204,961)
Fund balance - October 1	<u>(73,016)</u>	<u>(73,016)</u>	<u>(73,016)</u>	<u>-</u>	<u>131,945</u>
Fund balance - September 30	<u>\$ (482,432)</u>	<u>\$ (340,262)</u>	<u>\$ (259,961)</u>	<u>\$ 80,301</u>	<u>\$ (73,016)</u>

The accompanying notes are an integral part of this statement.



**CITY OF CHILDRESS, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**  
**WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2016**

	Water and Sewer Fund	
	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 600	\$ 600
Accounts receivable (net of allowance for uncollectibles)	382,708	240,647
Total current assets	<u>383,308</u>	<u>241,247</u>
Noncurrent assets:		
Restricted cash and cash equivalents	22,704	4,618
Capital assets:		
Land	39,722	39,722
Buildings and improvements	4,461,569	4,461,569
Equipment	2,175,291	1,971,411
Landfill permit	154,407	154,407
Less accumulated depreciation and amortization	(4,363,361)	(4,175,267)
Total capital assets (net of accumulated depreciation)	<u>2,467,628</u>	<u>2,451,842</u>
Total noncurrent assets	<u>2,490,332</u>	<u>2,456,460</u>
Total assets	<u>2,873,640</u>	<u>2,697,707</u>
<b>Deferred Outflow of Resources</b>		
Pension expenditures	<u>201,734</u>	<u>202,511</u>
<b>Liabilities</b>		
Current liabilities:		
Bank overdraft	101,363	221,567
Accounts payable and other current liabilities	135,466	331,105
Accrued interest payable	5,296	6,438
Accrued wages	7,416	5,478
Compensated absences-current	2,952	2,797
Payable to government agencies	9,723	10,147
Current portion lease payable	75,096	22,235
Current portion long-term note payable	36,397	48,905
Total current liabilities	<u>373,709</u>	<u>648,672</u>
Current liabilities payable from restricted assets:		
Customer deposits-payable from restricted assets	<u>122,620</u>	<u>120,670</u>
Noncurrent liabilities:		
Estimated liability for landfill closure and postclosure care costs	303,296	281,382
Compensated absences	26,570	25,178
Net pension obligation payable	659,071	583,021
Lease payable (net of current portion)	130,020	99,778
Note payable (net of current portion)	811,080	847,316
Total noncurrent liabilities	<u>1,930,037</u>	<u>1,836,675</u>
Total liabilities	<u>2,426,366</u>	<u>2,606,017</u>
<b>Deferred Inflow of Resources</b>		
Pension expenditures	<u>1,617</u>	<u>2,083</u>
<b>Net Position</b>		
Invested in capital assets, net of related debt	1,415,035	1,433,608
Unrestricted	(767,644)	(1,141,490)
Total net position	<u>\$ 647,391</u>	<u>\$ 292,118</u>

The accompanying notes are an integral part of this statement.

**CITY OF CHILDRESS, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**  
**WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2016**

	Business-type Activities - Enterprise Fund	
	2017	2016
<b>Operating revenues:</b>		
Charges for sales and services:		
Water	\$ 2,169,539	\$ 1,977,157
Sewer	667,151	647,227
Trash	776,673	754,381
Other	28,086	397,070
Total operating revenues	<u>3,641,449</u>	<u>3,775,835</u>
<b>Operating expenses:</b>		
Payroll costs	1,093,968	956,081
Office expenses	45,508	33,950
Maintenance and repairs	136,157	289,893
Supplies	212,752	170,967
Insurance	33,561	23,365
Utilities	52,488	120,990
Professional fees and special services	12,021	28,992
Water purchases	1,188,338	1,167,294
Travel and lodging	4,325	4,660
Fuel	67,117	97,785
Dues and subscriptions	83,797	84,162
Depreciation and amortization	188,094	194,376
Landfill closure and postclosure costs	21,915	22,539
Bad debt	-	38,428
Miscellaneous	28,922	113,378
Total operating expenses	<u>3,168,963</u>	<u>3,346,860</u>
Operating income	<u>472,486</u>	<u>428,975</u>
<b>Non-operating revenues (expenses):</b>		
Interest income	87	-
Interest expense	(42,823)	(41,638)
Total non-operating revenues (expenses)	<u>(42,736)</u>	<u>(41,638)</u>
Loss before contributions and transfers	429,750	387,337
<b>Contributions and operating transfers:</b>		
Operating transfers (net)	(74,477)	(736,567)
Net contributions and operating transfers	(74,477)	(736,567)
Change in net position	355,273	(349,230)
Total net position - October 1	<u>292,118</u>	<u>641,348</u>
Total net position - September 30	<u>\$ 647,391</u>	<u>\$ 292,118</u>

The accompanying notes are an integral part of this statement.

**CITY OF CHILDRESS, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**  
**WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 20165**

	Proprietary Fund Type Water & Sewer	
	2017	2016
<b>Cash flows from operating activities</b>		
Receipts from customers and users	\$ 3,499,388	\$ 3,762,980
Payments to suppliers	(1,984,689)	(1,984,617)
Payments to employees	(1,090,483)	(901,016)
Net cash provided by operating activities	<u>424,216</u>	<u>877,347</u>
<b>Cash flows provided by noncapital financing activities</b>		
Operating transfers	<u>(74,477)</u>	<u>(736,567)</u>
<b>Cash flows from capital and related financing activities</b>		
Purchase of equipment	(203,880)	(99,684)
Lease proceeds	155,534	-
Debt repayment	(121,175)	(68,256)
Interest paid on debt	(43,965)	(42,192)
Net cash provided by financing activities	<u>(213,486)</u>	<u>(210,132)</u>
<b>Cash flows from investing activities</b>		
Interest income	87	-
Customer deposits	1,950	2,530
Net cash provided by investing activities	<u>2,037</u>	<u>2,530</u>
Net increase in cash and cash equivalents	138,290	(66,822)
Cash and cash equivalents at beginning of year	<u>(216,349)</u>	<u>(149,527)</u>
Cash and cash equivalents at end of year	<u>\$ (78,059)</u>	<u>\$ (216,349)</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating income	\$ 472,486	\$ 428,975
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	188,094	194,376
(Increase) decrease in current assets:		
Receivables	(142,061)	(12,855)
Increase (decrease) in current liabilities:		
Accounts payable	(195,639)	183,267
Accrued payroll	3,485	(1,977)
Payable to government agencies	(424)	5,980
Landfill closure postclosure	21,914	22,539
Net pension obligation	76,361	57,042
Net cash provided by operating activities	<u>\$ 424,216</u>	<u>\$ 877,347</u>

The accompanying notes are an integral part of this statement.

**CITY OF CHILDRESS, TEXAS**  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED SEPTMEBER 30, 2017  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Revolving Loan Fund	
	2017	2016
<b>Assets</b>		
Receivables (net of allowances for uncollectibles)	\$ 376,838	\$ 385,177
Restricted assets:		
Cash and cash equivalents	46,316	37,618
 Total assets	423,154	422,795
<b>Net Position</b>		
Restricted for:		
Civic development projects	423,154	422,795
Total net position	\$ 423,154	\$ 422,795

The accompanying notes are an integral part of this statement.

**CITY OF CHILDRESS, TEXAS**  
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Revolving Loan Fund	
	2017	2016
<b>Additions</b>		
Community development	\$ -	\$ -
Interest	359	1,291
Total additions	<u>359</u>	<u>1,291</u>
<b>Deductions</b>		
Community development	-	-
Total deduction	<u>-</u>	<u>-</u>
Change in net assets	359	1,291
Net position - October 1	422,795	421,504
Net position - September 30	<u>\$ 423,154</u>	<u>\$ 422,795</u>

The accompanying notes are an integral part of this statement.

**CITY OF CHILDRESS, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2017

A. Summary of Significant Accounting Policies

The financial statements of the City of Childress, Texas, (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.

1. Reporting Entity

The City was incorporated on May 22, 1922. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services.

As required by generally accepted accounting principles, these financial statements present the City of Childress (primary government) and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of its operational and financial relationship with the City. Each of the City's component units has a September 30th year-end.

Discretely Presented Component Units

Childress Economic Development Corporation - The activities of the Childress Economic Development Corporation are included in the City's accompanying financial statements as a component unit. This Corporation is a separate nonprofit governmental unit administered by a five-member board and the City's mayor and city manager as ex officio members. The City exercises significant oversight in approving budgets, corporate records, and accounting records of the Corporation.

The City of Childress Housing Finance Corporation - The City of Childress has created the City of Childress Housing Finance Corporation. The Corporation has been formed to develop a means of financing the cost of residential ownership and development that will provide decent, safe and sanitary housing for low and moderate income residents of the City. The Corporation is a separate proprietary unit administered by a five-member board appointed by the City Council. The City exercises significant oversight in approving budgets, accounting, and corporate records. For the year ended September 30, 2017, the Corporation had no activity.

Further financial information for the City's component units can be obtained from the City's Administrative Offices.

2. 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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

**CITY OF CHILDRESS, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2017

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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.

3. 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 and fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For the purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**CITY OF CHILDRESS, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2017

The government reports the following major governmental fund:

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

The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of governmental funds.

The capital projects fund is used to account for funds reserved for capital improvements.

The government reports the following major proprietary fund:

Enterprise Fund is used to account for water and sewer service operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided the periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

#### Other Fund Types

Fiduciary fund is used to account for the revolving loan fund providing financing for civic development projects for the benefit of individuals, private organizations or other governments.

### B. Assets, Liabilities, and Net Position or Equity

#### 1. Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash in all funds is combined into one bank account in order to maximize investment opportunities. Although individual funds may experience temporary overdraft liabilities, a positive balance is maintained in combined cash.

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. 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 "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### 3. Inventory

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories are recorded as assets when purchased and charged to operations when used.



**CITY OF CHILDRESS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2017**

4. Restricted assets

Restricted assets in the Water and Sewer Fund and Nonexpendable Trust Fund, held for specific purposes in accordance with legal restrictions.

5. Capital Assets

Capital assets, which include land, buildings, equipment, improvements purchased or acquired, are carried at historical cost or estimated historical cost if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed. A capitalization threshold of \$5,000 is used for all capital assets.

GASB 34 requires infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be capitalized and depreciated. The City has determined that the net value of infrastructure assets at October 1, 2003, would be immaterial to the government-wide financial statements. The City has elected not to include infrastructure assets as required by GASB 34 prior to October 1, 2003, but to record all subsequent additions.

Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

Assets	Years
Buildings and improvements	20-40
Equipment	5-10

6. Fund Equity

The following classifications of fund equity describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in nonspendable 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 itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

**CITY OF CHILDRESS, TEXAS**  
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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). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, The City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

C. Stewardship, Compliance, and Accountability

1. Budgetary Information

The official budget was prepared for adoption for the General Fund. The following procedures are followed in establishing the budgetary data reflected in the general purpose financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. 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 have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. During the year, the budget was amended as necessary. All budget appropriations lapse at year-end.

D. Detailed Notes on All Funds

1. Deposits and Investments

Cash includes demand deposits. The City is authorized to invest its funds under State law in obligations of the United States or its agencies, the State of Texas or its agencies, other obligations which are unconditionally guaranteed by the State of Texas or the United States, obligations of other governmental agencies with a bond rating of not less than AA or its equivalent, and certificates of deposit that are insured by Federal depository insurance and fully collateralized direct repurchase agreements. During the year ended September 30, 2017, the City did not own any investments other than those permitted by statute.

**CITY OF CHILDRESS, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2017

Cash Deposits:

At September 30, 2017, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$135,635 and the bank balance was \$283,009. At September 30, 2017, the City's cash deposits were covered by FDIC insurance.

The Childress Economic Development Corporation deposits were \$552,974, and the bank balance was \$548,148. At September 30, 2017, the CEDC's cash deposits were covered by FDIC insurance or by pledged collateral held by the agent bank.

Deposits of the City can be exposed to risk that has the potential to result in losses. The following is an analysis of those risks:

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The City will minimize credit risk by limiting investments to certain types of securities, pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business, and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized. At year-end, the City was not significantly exposed to credit risk.

- Custodial credit risk occurs when deposits are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging of financial institution, or collateralized with securities held by the pledging of financial institutions trust department or agent but not in the City's name. At year-end, the City was not significantly exposed to custodial credit risk.
- Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

To eliminate risk of loss resulting from over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all City funds shall be diversified by maturity, issuer, and class of security. At year-end, the City was not significantly exposed to concentration of credit risk related to deposits and investments.

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The City's policy is to not directly invest in securities maturity more than six (6) months from date of purchase. The City will also invest operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limits the average maturity of the portfolio. At year-end, the City was not exposed to interest rate risk.

**CITY OF CHILDRESS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2017**

E. Receivables

Primary Government

Receivables at September 30, 2017, consist of the following:

	General Fund	Water & Sewer Fund	Total
Taxes and assessments	\$ 418,615	\$ -	\$ 418,615
Customer-trade	-	560,407	560,407
Paving	119,069	-	119,069
Gross receivables	537,684	560,407	1,098,091
Less: Allowance for uncollectible accounts	237,430	177,699	415,129
Net total receivables	\$ 300,254	\$ 382,708	\$ 682,962

Discretely Presented Component Unit

Childress Economic Development Corporation receivables at September 30, 2017, consist of the following:

Taxes and assessments	\$ 72,873
Notes receivable	20,452
Total receivables	\$ 93,325

Revolving Loan Fund Receivables

The proceeds from the loan repayment and interest are returned to the Trust Fund and are available for future business development loans that meet a published loan criterion. At September 30, 2017, four small business loans were receivable. The total due on these loans was \$86,838, and interest rates range from 0% to 2%. All loans are secured.

Revolving Loan Fund also had a note receivable from the City of Childress at year-end of \$290,000.

F. Property Taxes

Property taxes are levied by October 1 on assessed value listed as of the prior January 1 for all real and business 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 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The City is permitted by state law to levy taxes for general governmental services, and the payment of principal and interest on long-term debt. The tax rates to finance general governmental services and the payment of principal and interest on long-term debt for the year ended September 30, 2017, were \$.335189 and \$.343128, respectively, per \$100 valuation, for a total of \$.678317.

**CITY OF CHILDRESS, TEXAS**  
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G. Restricted Assets

Restricted assets in the Water and Sewer Fund and Nonexpendable Trust Fund, held for specific purposes in accordance with legal restrictions, are comprised of the following:

<u>General Fund</u>	
For capital improvement	\$ 73,415
For public safety	<u>13,207</u>
Total General Fund	<u>86,622</u>
<u>Capital Projects Fund</u>	
For capital improvement	<u>10,984</u>
<u>Debt Service Fund:</u>	
For debt service	<u>70,920</u>
Total Governmental Funds	<u>168,526</u>
<u>Water and Sewer Fund:</u>	
For customer deposits	<u>22,704</u>
<u>Economic Development</u>	
For business development	<u>517,306</u>
<u>Nonexpendable Trust Fund:</u>	
For business development:	<u>46,316</u>
Total restricted assets	<u>\$ 754,852</u>

**CITY OF CHILDRESS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2017**

H. Plant, Equipment, and Depreciation

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

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 865,366	\$ -	\$ -	\$ 865,366
Capital assets, being depreciated:				
Buildings and improvements	10,856,928	182,488	-	11,039,416
Equipment	3,709,755	298,821	37,250	3,971,326
Total capital assets, being depreciated:	14,566,683	481,309	37,250	15,010,742
Less accumulated depreciation for:				
Buildings and improvements	(2,279,356)	(264,637)	-	(2,543,993)
Equipment	(2,426,087)	(250,862)	28,335	(2,648,614)
Total accumulated depreciation	(4,705,443)	(515,499)	28,335	(5,192,607)
Total capital assets, being depreciated, net	9,861,240	(34,190)	8,915	9,818,135
Governmental activities capital assets, net	\$ 10,726,606	\$ (34,190)	\$ 8,915	\$ 10,683,501
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 39,722	\$ -	\$ -	\$ 39,722
Capital assets, being depreciated:				
Improvements	4,461,569	-	-	4,461,569
Equipment	1,971,411	203,880	-	2,175,291
Total capital assets, being depreciated:	6,432,980	203,880	-	6,636,860
Less accumulated depreciation for:				
Improvements	(2,430,885)	(110,833)	-	(2,541,718)
Equipment	(1,671,681)	(73,403)	-	(1,745,084)
Total accumulated depreciation	(4,102,566)	(184,236)	-	(4,286,802)
Total capital assets, being depreciated, net	2,330,414	19,644	-	2,350,058
Business-type activities capital assets, net	\$ 2,370,136	\$ 19,644	\$ -	\$ 2,389,780

**CITY OF CHILDRESS, TEXAS**  
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
General government		\$ 1,064
Street		48,286
Police		68,015
Fire		66,330
Health		780
Park		55,318
Cemetery		704
Airport		36,351
Golf Course		132,989
ATV Park		<u>105,662</u>
Total depreciation expense – governmental activities		<u>\$ 515,499</u>
Business-type activities:		
Water and Sewer		\$ 128,792
Trash		<u>55,444</u>
Total depreciation expense – business-type activities:		<u>\$ 184,236</u>

Discretely presented component unit

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Economic Development activities:				
Capital assets, not being depreciated:				
Land	<u>\$ 145,403</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,403</u>
Capital assets, being depreciated:				
Buildings and improvements	1,507,338	226,217	-	1,733,555
Equipment	<u>46,640</u>	<u>-</u>	<u>-</u>	<u>46,640</u>
Total capital assets, being depreciated:	<u>1,553,978</u>	<u>226,217</u>	<u>-</u>	<u>1,780,195</u>
Less accumulated depreciation for:				
Buildings and improvements	(391,004)	(37,777)	-	(428,781)
Equipment	<u>(29,880)</u>	<u>(5,435)</u>	<u>-</u>	<u>(35,315)</u>
Total accumulated depreciation	<u>(420,884)</u>	<u>(43,212)</u>	<u>-</u>	<u>(464,096)</u>
Total capital assets, being depreciated, net	<u>1,133,094</u>	<u>183,005</u>	<u>-</u>	<u>1,316,099</u>
Economic Development assets (net)	<u>\$1,278,497</u>	<u>\$ 183,005</u>	<u>\$ -</u>	<u>\$1,461,502</u>
Component units:				
Economic Development Corporation			<u>\$ 43,212</u>	

**CITY OF CHILDRESS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2017**

I. Long-Term Debt

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

	Balance at Beginning of Year	Increase	Decrease	Balance at End of Year	Due Within One Year
<u>Governmental activities:</u>					
Certificate of obligation bonds	\$3,872,000	\$ -	\$ 255,000	\$3,617,000	\$ 262,000
Notes payable	472,798	-	65,130	407,668	51,481
Lease payable	220,698	298,921	119,465	400,154	125,727
Compensated absences	<u>111,566</u>	<u>-</u>	<u>7,612</u>	<u>103,954</u>	<u>10,395</u>
Governmental activities long-term debt	<u>\$4,677,062</u>	<u>\$ 298,921</u>	<u>\$ 447,207</u>	<u>\$4,528,776</u>	<u>\$ 449,603</u>
<u>Business-type activities:</u>					
Notes payable	\$ 896,221	\$ -	\$ 48,744	\$ 847,477	\$ 36,397
Lease payable	122,013	155,534	72,431	205,116	75,096
Compensated absences	<u>27,975</u>	<u>1,547</u>	<u>-</u>	<u>29,522</u>	<u>2,952</u>
Business-type activities long-term debt	<u>\$1,046,209</u>	<u>\$157,081</u>	<u>\$ 121,175</u>	<u>\$1,082,115</u>	<u>\$ 114,445</u>
<u>Component units:</u>					
Economic Development Corporation					
Compensated absences	<u>\$ 10,145</u>	<u>\$ -</u>	<u>\$ 5,106</u>	<u>\$ 5,039</u>	<u>\$ 504</u>

Certificate of Obligation Bonds payable at September 30, 2017, are comprised of the following individual issues:

	Range of Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding At 9/30/17
2014 General Refunding Bond	2.2%	2/15/22	\$ 145,000 to 164,000	\$ 1,219,000	\$ 784,000
2015 Certificates of Obligation	3.85%	4/15/35	\$ 102,000 to 213,000	3,043,000	2,833,000



**CITY OF CHILDRESS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2017**

The annual requirements to pay principal and interest on the City's bonded debt at September 30, 2017, are as follows:

Year Ending September 30,	Principal	Interest	Total
2018	\$ 262,000	\$ 124,669	\$ 386,669
2019	269,000	117,024	386,024
2020	278,000	109,148	387,148
2021	286,000	101,002	387,002
2022	294,000	92,587	386,587
2023-27	895,000	376,525	1,271,525
2028-32	882,000	222,838	1,104,838
2033-35	<u>615,000</u>	<u>47,971</u>	<u>662,971</u>
Total	<u>\$ 3,781,000</u>	<u>\$ 1,191,764</u>	<u>\$ 4,972,764</u>

The Certificate of Obligations Bonds were issued on the full faith and credit of the City and are secured by ad valorem taxes levied against all taxable property. The bonds are serviced by the Debt Service Fund. At September 30, 2017, \$74,016 was available in this fund to service these bonds.

Notes payable

The notes payable at September 30, 2017, consisted of the following:

	Maturity Date	Interest Rate	Balance 9/30/17
<u>Governmental activities:</u>			
Line of Credit	8/15/18	4.50%	\$507,528
Equipment	09/30/17	3.00%	961
Fire truck	11/01/22	3.50%	116,707
Event Center – Revolving Loan Fund	11/16/26	0.00%	290,000
<u>Business-type activities:</u>			
Equipment	9/30/17	3.00%	299
Water meter system	9/01/34	3.85%	847,178

The City reinstated a \$1,000,000 line of credit on August 15, 2017, secured by real estate of the City, due on August 15, 2018, and accruing interest at a rate of 4.5%. At September 30, 2017 the City had an unused line of credit available of \$492,472.

**CITY OF CHILDRESS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2017**

The annual requirements to pay principal and interest on the City's notes payable at September 30, 2017, are as follows:

Year Ending September 30,	Principal	Interest	Total Requirements
Governmental activities:			
2018	\$ 559,009	\$ 26,343	\$ 585,352
2019	51,144	2,856	54,000
2020	51,808	2,192	54,000
2021	52,492	1,508	54,000
2022	53,197	803	54,000
2023-27	147,546	77	147,623
Total	<u>\$ 915,196</u>	<u>\$ 33,779</u>	<u>\$ 948,975</u>
Business-type activities:			
2018	\$ 36,397	\$ 32,272	\$ 68,669
2019	37,501	30,869	68,370
2020	38,959	29,411	68,370
2021	40,473	27,897	68,370
2022	42,046	26,324	68,370
2023-27	236,055	105,796	341,851
2028-32	285,641	56,210	341,851
2033-34	130,405	6,336	136,741
Total	<u>\$ 847,477</u>	<u>\$ 315,115</u>	<u>\$1,162,592</u>

Leases

Equipment under capital lease agreements at year end had a net book value of \$782,170. Minimum future rental payments as of September 30, 2017, are as follows:

<u>Year Ending September 30:</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2018	\$ 149,782	\$ 82,354
2019	86,987	82,354
2020	65,254	27,912
2021	65,254	27,914
2022	<u>65,254</u>	<u>-</u>
Total minimum lease payments	432,531	220,534
Amount representing interest	<u>32,377</u>	<u>15,418</u>
Present value of minimum lease payments	<u>\$ 400,154</u>	<u>\$ 205,116</u>

**CITY OF CHILDRESS, TEXAS**  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2017

J. Employee Retirement System

Plan Description

The City of Childress participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

Benefits Provided

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

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

Deposit rate:	7%
Matching ratio (to employee)	2 to 1
A member is vested after:	5 years
Service retirement eligibility	60/5, 0/20
Updated service credit	0%
Annuity increase (no retirees)	0% of CPI

Employees covered by benefit terms:

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

Inactive employees or beneficiaries currently receiving benefits	34
Inactive employees entitled to but not yet receiving benefits	30
Active employees	<u>69</u>
Total	<u>133</u>

**CITY OF CHILDRESS, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2017

Contributions

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

Employees for the City of Childress were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Childress were 14.71% and 15.01% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$323,087, and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

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

Inflation	2.50% per year
Overall payroll growth	3.00% 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-district RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 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 scales BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. 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 CHILDRESS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2017**

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 percentages 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 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
<b>Total</b>	<b>100.0%</b>	

**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 CHILDRESS, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2017

Changes in Net Pension Liability

	Total Pension <u>Liability</u> (a)	Plan Fiduciary <u>Net Position</u> (b)	Net Pension <u>Liability</u> (a) – (b)
Balance at 12/31/2015	<u>\$8,268,586</u>	<u>\$ 6,109,249</u>	<u>\$2,159,337</u>
Changes for the year:			
Service cost	343,103	-	343,103
Interest	555,848	-	555,848
Change of benefit terms	-	-	-
Difference between expected and actual experience	160,917	-	160,917
Changes of assumptions	-	-	-
Contributions – employer	-	309,899	(309,899)
Contributions – employee	-	147,526	(147,526)
Net investment income	-	412,869	(412,869)
Benefit payments, including refunds of employee contributions	(410,705)	(410,705)	-
Administrative expense	-	(4,663)	4,663
Other changes	-	(251)	251
Net changes	<u>649,163</u>	<u>454,675</u>	<u>194,488</u>
Balance at 12/31/2016	<u>\$8,917,749</u>	<u>\$ 6,563,924</u>	<u>\$2,353,825</u>

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 3,598,509	\$ 2,353,825	\$ 1,331,817

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.tmr.com](http://www.tmr.com).

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

For the year ended September 30, 2017, the City recognized pension expense of \$537,995.

**CITY OF CHILDRESS, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2017

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 484,530	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	5,774
Contributions subsequent to the measurement date	<u>235,950</u>	<u>-</u>
Total	<u>\$ 720,480</u>	<u>\$ 5,774</u>

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2017	\$ 188,393
2018	155,531
2019	124,402
2020	<u>10,430</u>
Total	<u>\$ 478,756</u>

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

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

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 programs to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the year ended 2017, 2016, and 2015 were \$5,637,\$4,798, and \$4,431, respectively, which equal the required contributions each year.

**CITY OF CHILDRESS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2017**

**K. Risk Management**

The City is exposed to various risks 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 obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other 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 above insurance coverage. The agreement for the 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 fiscal years.

**L. Health Care Coverage**

During the year ended September 30, 2017, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$393 per month per employee to the Plan. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

**M. Commitments and Contingencies**

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**N. Expenditures in Excess of Budgeted Amounts**

During the year ended September 30, 2017, the City had expenditures in excess of the budgeted amount in the General Fund in the following areas and amounts:

Public safety:	
Police	59,690
Fire	59,524
Park	69,043
ATV park	2,906
Golf course	5,745
Debt service	
Principal	47,325
Interest	10,875
Capital outlay	<u>231,060</u>
Total expenditures	<u>\$ 486,168</u>



**CITY OF CHILDRESS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2017**

O. Closure and Postclosure Care Cost

State and federal laws and regulations require that the City of Childress place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$303,296 as of September 30, 2017, which is based on 18% usage (filled) of the landfill. It is estimated that an additional \$1,381,683 will be recognized as closure and post-closure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2048). The estimated total current cost of the landfill closure and postclosure care (\$1,684,979) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of September 30, 2017. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

P. Accumulated Unpaid Vacation and Sick Leave Benefits

At September 30, 2017, the City had accrued vacation leave, comp time and related payroll tax liabilities of \$133,477. Sick leave has not been accrued because it is not payable upon termination of an employee.

Q. Interfund Transactions

Interfund receivables and payables at September 30, 2017 consisted of the following:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 8,346	\$ 508,526
Capital Projects	-	117,304
Interest and Sinking	625,830	-
Water and Sewer Fund	-	-
Component Unit	-	8,346
	<u>\$ 634,176</u>	<u>\$ 634,176</u>

Government interfund transfers during the year ended September 30, 2017, were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 505,566	\$ -
Capital Projects	-	67,746
Interest and Sinking	-	363,343
Water and Sewer Fund	-	74,477
	<u>\$ 505,566</u>	<u>\$ 505,556</u>

Eliminations

Interfund receivables, payables and transfers are reported in the governmental activities fund financial statements. In the entity-wide statements, interfund transfers are eliminated within the governmental activities column.

**CITY OF CHILDRESS, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2017

Purpose of Transfers

Primarily, transfers are used to 1) move assets completed in the Capital Projects Fund into the General Fund and 2) move any amount recorded in an inappropriate fund to the correct fund in which the amount should be accounted.

R. Litigation

The City is a defendant from time to time in various lawsuits. In the opinion of the City's management, any liabilities resulting from such lawsuits will not have a material effect on the financial position of the City.

# CITY OF CHILDRESS, TEXAS

## REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2017

### SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS Last 10 Years (will ultimately be displayed)

	12/31/2014	12/31/2015	12/31/2016
<b>Total pension liability</b>			
Service Cost	\$ 241,040	\$ 299,402	\$ 343,103
Interest (on the Total Pension Liability)	502,133	541,124	555,848
Changes of benefit terms	-	-	-
Difference between expected and actual experience	173,240	59,415	160,917
Change of assumptions	-	(10,054)	-
Benefit payments, including refunds of employee contributions	(373,270)	(403,884)	(410,705)
Net change in Total Pension Liability	543,143	486,003	649,163
Total Pension Liability - Beginning	7,239,440	7,782,583	8,268,586
Total Pension Liability - Ending	\$ 7,782,583	\$ 8,268,586	\$ 8,917,749
 <b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 257,664	\$ 284,640	\$ 309,899
Contributions - Employee	123,200	135,476	147,526
Net Investment Income	329,285	8,985	412,869
Benefit payments, including refunds of employee contributions	(373,270)	(403,884)	(410,705)
Administrative expense	(3,438)	(5,473)	(4,663)
Other	(283)	(270)	(251)
Net Change in Plan Fiduciary Net Position	333,158	19,474	454,675
Plan Fiduciary Net Position - Beginning	5,756,617	6,089,775	6,109,249
Plan Fiduciary Net Position - Ending	\$ 6,089,775	\$ 6,109,249	\$ 6,563,924
 Net Pension Liability Ending (a)-(b)	\$ 1,692,808	\$ 2,159,337	\$ 2,353,825
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	78.25%	73.89%	73.61%
 Covered Employee Payroll	\$ 1,760,006	\$ 1,935,374	\$ 2,107,512
 Net Pension Liability as a Percentage of Covered Employee Payroll	96.18%	111.57%	111.69%

# CITY OF CHILDRESS, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2017

SCHEDULE OF CONTRIBUTIONS  
Last 10 Fiscal Years (will ultimately be displayed)

	12/31/2014	12/31/2015	12/31/2016
Actuarially Determined Contribution	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -
 Covered employee payroll	 \$ -	 \$ -	 \$ -
 Contributions as a percentage of covered employee payroll	 0.00%	 0.00%	 0.00%

Notes to Schedule of Contributions

**Valuation Date:**

Notes

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 year smoothed market, 15% soft corridor
Inflation	3%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010- 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generated basis with scale BB.

**Other Information:**

Notes

There were no benefit changes during the year.

**CITY OF CHILDRESS, TEXAS**REVENUES BY SOURCE (GENERAL AND DEBT SERVICE FUNDS ONLY) -  
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Ad Valorem Taxes</u>	<u>Sales and Other Taxes</u>	<u>Intergovernmental</u>	<u>Leases</u>
2008	706,303	1,072,039	1,042,027	37,266
2009	732,032	1,153,266	259,372	33,842
2010	742,417	1,099,181	221,166	43,084
2011	774,253	1,167,811	235,360	171,075
2012	779,686	1,280,931	226,381	41,739
2013	794,804	1,348,606	165,809	78,874
2014	786,836	1,349,785	337,560	112,851
2015	896,161	1,373,619	142,543	134,758
2016	1,055,502	1,341,516	89,616	89,148
2017	1,268,010	1,352,344	293,229	116,369

<u>Traffic Fines</u>	<u>Interest</u>	<u>Other</u>	<u>Total</u>
29,604	5,723	362,110	3,255,072
43,336	8	968,173	3,190,029
81,172	1,092	603,547	2,791,659
188,047	3,578	693,749	3,233,873
243,146	2,235	628,491	3,202,609
149,816	281	728,447	3,266,637
203,006	779	764,865	3,555,682
217,600	1,895	1,086,604	3,853,180
465,965	1,820	564,396	3,607,963
428,260	1,643	469,716	3,929,571

**CITY OF CHILDRESS, TEXAS**  
**GOVERNMENTAL EXPENDITURES BY FUNCTION**  
**(GENERAL AND DEBT SERVICE FUNDS ONLY) -**  
**LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>General Government</u>	<u>Street</u>	<u>Public Safety</u>	<u>Fire</u>	<u>Health</u>	<u>Parks and Recreation</u>
2008	202,238	347,556	604,378	387,248	7,735	195,156
2009	223,134	307,909	535,751	381,126	16,894	165,283
2010	221,575	342,887	619,944	406,587	48,213	189,964
2011	250,331	315,795	796,270	447,105	45,066	213,149
2012	259,283	234,979	846,484	454,118	53,775	232,786
2013	305,464	264,351	857,746	526,375	45,695	261,518
2014	511,904	240,611	885,720	498,326	60,897	241,583
2015	431,489	282,406	1,109,915	487,747	64,971	283,361
2016	347,054	315,806	1,080,329	530,873	53,438	398,221
2017	238,529	335,184	1,172,851	620,102	73,874	455,043

<u>Cemetery</u>	<u>Airport</u>	<u>ATV Park</u>	<u>Golf Course</u>	<u>Debt Service Fund</u>	<u>Total</u>
119,473	262,113	11,466	296,564	393,375	2,827,302
115,240	209,995	31,200	423,747	396,562	2,806,841
132,253	162,967	-	488,421	710,250	3,323,061
103,390	284,062	33,090	531,212	665,068	3,684,538
82,306	255,126	46,282	594,145	659,248	3,718,532
83,530	227,585	54,329	559,997	688,197	3,874,787
88,664	175,711	101,922	609,060	391,390	3,805,788
84,891	143,538	72,623	624,276	1,521,293	5,106,510
65,779	108,463	1,252	666,314	579,836	4,147,365
37,863	14,536	50,656	680,745	584,054	4,263,437



**CITY OF CHILDRESS, TEXAS**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Assessed Value</u>	<u>Combined Tax Rate</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Delinquent Tax Collections Including P&amp;I</u>
2007	123,558,930	0.501570	618,999	589,556	45,867
2008	130,026,076	0.526083	676,706	651,757	29,922
2009	147,087,470	0.494831	727,834	715,902	16,576
2010	156,569,030	0.480750	724,432	685,512	56,905
2011	148,285,510	0.536532	775,147	713,944	60,310
2012	182,232,427	0.539810	772,087	705,991	68,024
2013	184,568,116	0.529818	769,121	720,511	75,287
2014	226,850,011	0.498024	775,284	721,958	66,122
2015	228,963,174	0.571740	880,936	840,785	52,750
2016	255,911,260	0.575292	1,023,733	973,590	81,912
2017	268,564,921	0.678317	1,246,556	1,214,775	53,235

<u>Total Tax Collections</u>	<u>Percent of Total Tax Collections to Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>
635,423	102.65%	35,932
681,679	100.73%	28,258
732,478	100.64%	40,888
742,417	102.48%	60,762
774,254	99.88%	74,234
774,015	100.25%	94,248
795,798	103.47%	97,558
788,080	101.65%	101,205
893,535	101.43%	115,069
1,055,502	103.10%	108,377
1,268,010	101.72%	118,361

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*

Mayor and City Council  
City of Childress  
Childress, Texas 79201

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Childress, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Childress, Texas' basic financial statements, and have issued our report thereon dated June 11, 2018.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, Finding 2017-1.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Childress, Texas' 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2017-2, 2017-3.

### **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Foster & Lambert LLC". The signature is written in black ink and is positioned above the printed name of the firm.

Foster & Lambert L.L.C.  
June 11, 2018

**CITY OF CHILDRESS, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>		
Internal Control over financial reporting:			
Material weakness(es) identified?	<u> X </u>	Yes	_____ No
Significant deficiencies identified that are not considered to be material weaknesses?	_____	Yes	<u> X </u> No
Non compliance material to financial statements noted?	<u> X </u>	Yes	_____ No

2. Federal Awards

Under the guidelines of 2 CFR part 200, a Single Audit was not required for the year ended September 30, 2017.

B. Findings Required to be Reported in Accordance with Government Auditing Standards

**Finding 2017-1 - Material Weakness in Internal Control over Financial Reporting**

Criteria

The City should maintain adequate internal control over financial reporting to ensure accurate reporting in the City's financial statements.

Condition

During the audit, it was noted the City was not current with their bank reconciliations which led to reports provided to the City Council being incomplete.

Cause

Bank accounts were not reconciled in a timely manner. Reconciling items on the bank reconciliations were not corrected in a timely manner.

Effect

Reports provided to the City Council were incomplete as several transactions were not recorded timely.

**CITY OF CHILDRESS, TEXAS**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**Finding 2017-2 – Noncompliance – Interest and Sinking Fund**

Criteria

The City issued Certificates of Obligations that require the City to levy a tax on all taxable property within its boundaries to pay debt service.

Condition

The City issued Certificates of Obligation that state the City will levy a tax on all taxable property within its boundaries to pay debt service and such amounts will be deposited to the credit of the Interest and Sinking Fund. Funds designated for interest and sinking can only be used to pay the debts of the City.

Effect

The funds collected for interest and sinking were not being deposited into the Interest and Sinking Fund.

Recommendation

We recommend that the City deposit funds collected for interest and sinking directly in the Interest and Sinking Fund for the repayment of the City's obligations.

**Finding 2017-3 - Noncompliance - Overexpended Budget**

Criteria

The City Council approves an annual budget before each fiscal year and budget amendments are approved throughout the year to make changes to the original budget. At no time should expenditures exceed the amended budget amounts by functional category.

Condition

The expenditures exceeded the amended budget in the following functional categories and in total in the General Fund during the year ended September 30, 2017:

Public safety:	
Police	\$ 59,690
Fire	59,524
Park	69,043
ATV park	2,906
Golf course	5,745
Debt service	
Principal	47,325
Interest	10,875
Capital outlay	231,060

Cause

The amended budgets were overexpended as a result posting errors and expenditures accrued after year-end.

**CITY OF CHILDRESS, TEXAS**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Effect

Expenditures exceeded budget in eight functional areas.

Recommendation

We recommend that the City carefully monitor expenditures during the year, including items to be accrued as of September 30 of each year, and amend the budget accordingly so that the budgeted amounts are not exceeded.

C. Findings and Questioned Costs for State Awards

None, under the guidelines of 2 CFR part 200, a Single Audit was not required for the year ended September 30, 2017.

**CITY OF CHILDRESS, TEXAS**  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

**Finding 2017-1**

The City will seek training for the staff so they are more apt to record all transactions in a timely manner so that bank reconciliations can be completed soon after month-end. With the implementation of timely bank reconciliations, accurate reports can be provided to City Council.

The contact person for this corrective action plan is Kevin Hodges.

**Finding 2017-2**

We recommend that the City deposit funds collected for interest and sinking be deposited directly in the Interest and Sinking Fund for the repayment of the City's obligations.

The contact person for this corrective action plan is Kevin Hodges.

**Finding 2017-3**

The City will monitor expenditures more closely to ensure that expenditures do not exceed the budgeted amounts.

The contact person for this corrective action plan is Kevin Hodges.



**CITY OF CHILDRESS, TEXAS**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

<u>Finding 2016-1</u>	<u>Status</u>
During the audit, material misstatements were noted in the City's Accounting records. The City was to improve accounting records in the future.	Ongoing
<u>Finding 2016-2</u>	
Records were not being maintained to monitor proper receipt of Hotel/Motel and Franchise taxes as they are received	Corrected
<u>Finding 2016-3</u>	
There was a break down in internal control due to lack of segregation of Duties	Corrected
<u>Finding 2016-4</u>	
The City was not maintaining supporting documentation of the transactions of the City.	Corrected
<u>Finding 2016-5</u>	
Journal entries were being made without approval of management causing entries to be booked multiple times and incorrectly.	Corrected
<u>Finding 2016-6</u>	
Property taxes levied for debt service were not being deposited into the Interest & Sinking Fund to be used only for the payment of debt.	Ongoing
<u>Finding 2016-7</u>	
It was noted that the City's expenditures exceeded the budgeted amount in nine functional areas of the General Fund. The City will attempt to monitor more closely the expenditures and the budget.	Ongoing