

City of Lone Star, Texas
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
For the year ended September 30, 2017

City of Lone Star, Texas
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Year ended September 30, 2017

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CITY OF LONE STAR, TEXAS
SEPTEMBER 30, 2017

CITY COUNCIL

Randy Hodges
Mayor

Jerri Chism
Mayor Pro-tem

Ryan Harte
Alderman

Keith Reiter
Alderman

Lynn Cox
Alderman

Mona Brown
Alderman

CITY OFFICIALS

Devon Whatley
City Secretary

Jerry Stoermer
Fire Chief

Stan Lowry
Attorney

Larry Fleet
Chief of Police



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, and City Council City of Lone Star, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of City of Lone Star, 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, and each major fund of the City of Lone Star, 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, budgetary comparison, and net pension liability information on pages 4 through 11, 18 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 9, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

May 9, 2018

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lone Star, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities and performance for the year ended September 30, 2017. The information presented here should be read in conjunction with the independent auditor's report and the City's financial statements.

FINANCIAL HIGHLIGHTS

The City's total combined net position was \$3.3 million at September 30, 2017. \$2.5 million of the net position was invested in capital assets, net of related debt. Unrestricted net position was \$598 thousand at September 30, 2017. During the year, the City's expenses were \$1.5 million and \$1.4 million was generated in taxes, charges for services and other revenues from governmental and proprietary activities.

The general fund balance was \$68 thousand at September 30, 2017.

Approximately 95% of the taxes levied for 2016-17 were collected by September 30, 2017.

In September 2013, the City was notified of approval for up to \$2,528,000 in USDA/RUS loan funds and \$563,000 in USDA/RUS grant funds to support water and wastewater construction projects. This program was still in the engineering/planning phase as of September 30, 2017.

Texas Parks and Wildlife has awarded the City \$150 thousand in grant funds to be used for boat access improvements. \$16 thousand was received during the year.

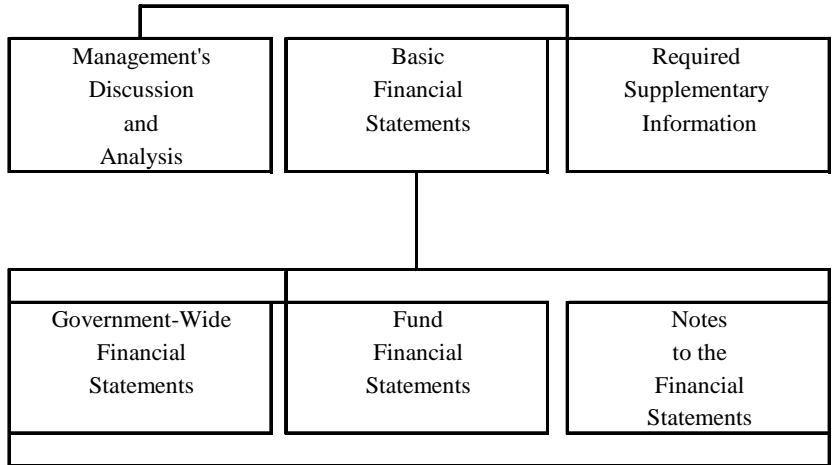
City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide information about the City's activities as a whole and present a longer-term view of the City's property and debt obligations. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer operations.

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



Summary ⇄ Detail

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Government-wide Statements

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

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

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, consideration should be given to additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as public safety, streets and bridges, judicial and general administration. Property taxes and charges for services finance most of these activities.

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*-not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

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

The City has two kinds of funds:

- *Governmental funds*-Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.
- *Proprietary funds*-Services for which the City charges customers a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both long-term and short-term financial information. *Internal service funds* are used to report activities that provide supplies and services for the City's other programs and activities. The City has no internal service funds.

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was approximately \$3.3 million at September 30, 2017.

Table A-1
The City's Net Position
(in thousands of dollars)

	Governmental Activities		Business Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	258	240	800	656	1,058	896
Capital and non-current assets	832	931	1,621	1,726	2,453	2,657
TOTAL ASSETS	1,090	1,171	2,421	2,382	3,511	3,553
DEFERRED OUTFLOWS OF RESOURCES	37	55	25	30	62	85
Long-term liabilities	-	-	-	-	-	-
Other liabilities	148	82	133	115	281	197
TOTAL LIABILITIES	148	82	133	115	281	197
Unavailable revenue-property taxes	31	28	-	-	31	28
TOTAL DEFERRED INFLOWS OF RESOURCES	31	28	-	-	31	28
Invested in capital assets					-	
net of related debt	832	931	1,621	1,726	2,453	2,657
Restricted	41	39	168	163	209	202
Unrestricted	75	146	524	407	599	553
TOTAL NET POSITION	948	1,116	2,313	2,296	3,261	3,412

Net position invested in capital assets reflects the book value of the City's capital assets in excess of the debt which financed those assets. The \$599 thousand of unrestricted net position represents resources available to fund the programs of the City for the next fiscal year.

Net position of the City decreased by \$151 thousand.

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in net position.

The City's total revenues were \$1.4 million. 19% of this came from property taxes, 15% came from sales taxes and other taxes, and 62% came from charges for services.

The total cost of all programs was \$1.5 million. Approximately 43% of this was for water and sewer, and 57% was for general fund operations.

Table A-2
The City's Changes in Net Position
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
<u>Program Revenues</u>						
Charges for service	182	163	679	675	861	838
Operating Grants and Contributions	62	11	-	3	62	14
<u>General Revenues</u>						
Property taxes	261	259	-	-	261	259
Other taxes and fees	204	198	-	-	204	198
Investment earnings	1	1	1	1	2	2
Other	2	5	-	-	2	5
Total Revenues	<u>712</u>	<u>637</u>	<u>680</u>	<u>679</u>	<u>1,392</u>	<u>1,316</u>
Expenses						
Administrative	89	84	-	-	89	84
City	184	170	-	-	184	170
Employee	376	349	-	-	376	349
Fire	32	38	-	-	32	38
Police	51	43	-	-	51	43
Public works	12	16	-	-	12	16
Water and sewer	-	-	663	601	663	601
Unallocated depreciation	137	122	-	-	137	122
Total Expenses	<u>881</u>	<u>822</u>	<u>663</u>	<u>601</u>	<u>1,544</u>	<u>1,423</u>
Transfers in (out)	-	-	-	-	-	-
Increase (Decrease) in Net Position	(169)	(185)	17	78	(152)	(107)
Beginning Net Position	<u>1,117</u>	<u>1,302</u>	<u>2,296</u>	<u>2,218</u>	<u>3,413</u>	<u>3,520</u>
Ending Net Position	<u><u>948</u></u>	<u><u>1,117</u></u>	<u><u>2,313</u></u>	<u><u>2,296</u></u>	<u><u>3,261</u></u>	<u><u>3,413</u></u>

Table A-3 presents the cost of each of the City's largest functions as well as each function's *net cost* (total cost less generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

Table A-3
Net Cost of Selected City Functions
(in thousands of dollars)

	Total Cost of Services		Net Costs of Services	
	2017	2016	2017	2016
Water and sewer	663	601	(16)	(77)
Administration, sanitation and public safety	881	822	636	649

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City reported fund balance in its governmental funds of approximately \$79 thousand at September 30, 2017. This balance is composed of the following in thousands.

General	69
Special revenue	<u>10</u>
	<u><u>79</u></u>

The general fund balance was down \$52 thousand. The special revenue fund balance was basically unchanged.

General Fund Budgetary Highlights

No budget amendments were made during the year. Actual revenues were more than budgeted by about 5%. Actual expenditures were \$54 thousand more than budgeted.

City of Lone Star, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table A-4
 City's Capital Assets
 (in thousands of dollars)

	Governmental Activities		Business-Type Activities	
	2017	2016	2017	2016
Land and construction in progress	376	376	242	238
Buildings	148	148	-	-
Machinery, equipment and vehicles	766	727	179	174
Improvements	443	443	-	-
Water and sewer system	-	-	4,430	4,430
Streets	200	200	-	-
Totals at historical cost	<u>1,933</u>	<u>1,894</u>	<u>4,851</u>	<u>4,842</u>
Total accumulated depreciation	<u>(1,101)</u>	<u>(963)</u>	<u>(3,230)</u>	<u>(3,116)</u>
Net capital assets	<u>832</u>	<u>931</u>	<u>1,621</u>	<u>1,726</u>

Long-Term Debt

Table A-5
 City's Long-Term Debt
 (in thousands of dollars)

	Governmental Activities		Business-Type Activities	
	2017	2016	2017	2016
Notes payable	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

No new debt was obtained this year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2018 budget and tax rate. The City is anticipating some growth in the tax base. The City is working on an economic development growth plan and increased sales tax collections. No significant increase or decrease was budgeted for expenditures or revenues so no significant change is anticipated to the City's equity position. No significant fixed asset acquisitions are budgeted.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Lone Star's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the City Manager's Office.

BASIC FINANCIAL STATEMENTS

GOVERNMENT WIDE STATEMENTS

City of Lone Star, Texas
STATEMENT OF NET POSITION
As of September 30, 2017

	Primary Government		Total	Component
	Governmental Activities	Business-Type Activities		Economic Development Unit Corporation
ASSETS				
Current Assets				
Cash and cash equivalents	130,203	425,363	555,566	112,308
Accounts receivable, net of allowances	97,195	87,424	184,619	-
Inventory	-	2,879	2,879	-
Due from other funds	-	115,999	115,999	-
Other	40	-	40	-
Total current assets	227,438	631,665	859,103	112,308
Restricted Assets				
Cash and cash equivalents	30,233	168,345	198,578	-
Total restricted assets	30,233	168,345	198,578	-
Capital Assets				
Land and construction in progress	375,739	242,157	617,896	40,960
Other capital assets, net of accumulated depreciation	456,798	1,379,118	1,835,916	17,940
Total capital assets	832,537	1,621,275	2,453,812	58,900
Other Assets	-	-	-	-
Total assets	1,090,208	2,421,285	3,511,493	171,208
DEFERRED OUTFLOWS OF RESOURCES				
Deferred resource outflow TMRS	36,979	24,653	61,632	-
Total deferred outflows of resources	36,979	24,653	61,632	-
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	31,707	51,616	83,323	418
Due to other funds	115,999	-	115,999	-
Total current liabilities	147,706	51,616	199,322	418
Liabilities payable from restricted assets				
Notes payable current	-	-	-	-
Non-current liabilities				
Meter deposits	-	81,185	81,185	-
Notes payable, non-current	-	-	-	-
Total non-current liabilities	-	81,185	81,185	-
Total liabilities	147,706	132,801	280,507	418
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	31,086	-	31,086	-
Total inflows of resources	31,086	-	31,086	-
NET POSITION				
Net investment in capital assets	832,537	1,621,275	2,453,812	58,900
Restricted for improvements and deposits	-	168,345	168,345	-
Restricted for special revenue funds and other	40,651	-	40,651	-
Unrestricted	75,207	523,517	598,724	111,890
Total net position	948,395	2,313,137	3,261,532	170,790

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

City of Lone Star, Texas
STATEMENT OF ACTIVITIES
For the year ended September 30, 2017

	Net (Expense) Revenue and Changes in Net Position					Component Unit Economic Development Corporation	
	Program Revenues			Primary Government			
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities		Total
Governmental activities							
Administration	88,632	-	-	(88,632)	-	(88,632)	-
City	183,631	155,095	17,257	(11,279)	-	(11,279)	-
Employee	375,805	-	-	(375,805)	-	(375,805)	-
Fire	31,905	-	8,250	(23,655)	-	(23,655)	-
Police	51,467	27,095	37,000	12,628	-	12,628	-
Public works	12,087	-	-	(12,087)	-	(12,087)	-
Unallocated depreciation	137,280	-	-	(137,280)	-	(137,280)	-
Total governmental activities	<u>880,807</u>	<u>182,190</u>	<u>62,507</u>	<u>(636,110)</u>	<u>-</u>	<u>(636,110)</u>	<u>-</u>
Business-type activities							
Water & sewer	663,542	679,322	-	-	15,780	15,780	-
Total business-type activities	<u>663,542</u>	<u>679,322</u>	<u>-</u>	<u>-</u>	<u>15,780</u>	<u>15,780</u>	<u>-</u>
Total primary government	<u>1,544,349</u>	<u>861,512</u>	<u>62,507</u>	<u>(636,110)</u>	<u>15,780</u>	<u>(620,330)</u>	<u>-</u>
Component Unit							
LS EDC	18,563	-	-	-	-	-	18,563
Total Component Unit	<u>18,563</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,563</u>
General revenues							
Taxes							
Property taxes, levied for general purposes				261,114	-	261,114	-
Sales and other taxes				204,338	-	204,338	65,885
Investment earnings				738	1,025	1,763	84
Miscellaneous				1,785	-	1,785	-
Total general revenues				<u>467,975</u>	<u>1,025</u>	<u>469,000</u>	<u>65,969</u>
Other Sources (Uses)							
Transfers in (out)				-	-	-	-
Changes in Net Position				(168,135)	16,805	(151,330)	47,406
Net position -- beginning				<u>1,116,530</u>	<u>2,296,332</u>	<u>3,412,862</u>	<u>123,384</u>
Net position -- ending				<u>948,395</u>	<u>2,313,137</u>	<u>3,261,532</u>	<u>170,790</u>

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

City of Lone Star, Texas
BALANCE SHEET
 Governmental Funds
 as of September 30, 2017

	General	Special Revenue	Total Governmental Funds
ASSETS			
Cash and cash equivalents	119,785	10,418	130,203
Accounts receivable, net of allowances	97,195	-	97,195
Due from other funds	-	-	-
Other	40	-	40
Restricted cash and cash equivalents	30,233	-	30,233
Total Assets	247,253	10,418	257,671
 LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES			
Liabilities			
Accounts payable and accrued expenses	31,707	-	31,707
Due to other funds	115,999	-	115,999
Total Liabilities	147,706	-	147,706
 DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	31,086	-	31,086
Total inflows of resources	31,086	-	31,086
 Fund Balances			
Reserved for			
Future year's expenditures	30,233	-	30,233
Designated			
Reported in special revenue funds	-	10,418	10,418
Unreserved and undesignated			
Reported in the general fund	38,228	-	38,228
Total Fund Balances	68,461	10,418	78,879
Total Liabilities, deferred inflows and Fund Balances	247,253	10,418	257,671

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

City of Lone Star, Texas
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
for the year ended September 30, 2017

Total Fund Balances - Governmental Funds	78,879
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,894,613 and the accumulated depreciation was \$963,296. The net effect of including the beginning balances for capital assets (net of depreciation) and in the governmental activities is to increase (decrease) net position.</p>	
	931,317
<p>Current year capital outlays and payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2017 capital outlays is to increase (decrease) net position.</p>	
	38,500
<p>The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.</p>	
	(137,280)
Effect of recording GASB 68 and 71.	36,979
Net Position, of Governmental Activities	948,395

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

City of Lone Star, Texas
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES--GOVERNMENTAL FUNDS
for the year ended September 30, 2017

	General	Special Revenue	Total Governmental Funds
REVENUES			
Ad valorem taxes	261,114	-	261,114
Sales tax	134,523	-	134,523
Franchise fees	68,461	1,354	69,815
Fines	27,095	-	27,095
Charges for services	155,095	-	155,095
Interest income	738	-	738
Intergovernmental	62,507	-	62,507
Other	1,785	-	1,785
Total revenues	711,318	1,354	712,672
EXPENDITURES			
Current			
Administrative	88,632	-	88,632
City	182,041	-	182,041
Employee	357,507	-	357,507
Fire	31,905	-	31,905
Police	46,887	-	46,887
Public works	12,087	-	12,087
Capital outlay			
Fire	-	-	-
Police	43,080	-	43,080
Public works and other	1,590	-	1,590
Total Expenditures	763,729	-	763,729
Excess (deficiency) of revenues over expenditures	(52,411)	-	-
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(52,411)	1,354	(51,057)
Fund balance, beginning of year	120,872	9,064	129,936
Fund balance, end of year	68,461	10,418	78,879

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

City of Lone Star, Texas
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
for the year ended September 30, 2017

Total Net Change in Fund Balances - Governmental Funds	(51,057)
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase (decrease) net position.	38,500
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(137,280)
Effect of recording GASB 68 and 71.	<u>(18,298)</u>
Change in Net Position of Governmental Activities	<u><u>(168,135)</u></u>

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

City of Lone Star, Texas
BUDGETARY COMPARISON SCHEDULE
 General Fund
 for the year ended September 30, 2017

	Original And Final Budget	Actual Amounts GAAP Basis	Variance with Final Budget Positive or (Negative)
REVENUES			
Ad valorem taxes	266,112	261,114	(4,998)
Sales tax	162,768	134,523	(28,245)
Franchise fees	73,944	68,461	(5,483)
Fines	-	27,095	27,095
Charges for services	148,164	155,095	6,931
Intergovernmental	8,220	62,507	54,287
Interest income	996	738	(258)
Other	20,844	1,785	(19,059)
Total Revenues	<u>681,048</u>	<u>711,318</u>	<u>30,270</u>
EXPENDITURES			
Current			
Administrative	65,424	88,632	(23,208)
City	176,772	182,041	(5,269)
Employee	325,440	357,507	(32,067)
Fire	32,700	31,905	795
Police	31,512	46,887	(15,375)
Public works	24,788	12,087	12,701
Capital outlay			
Police	50,000	43,080	6,920
Fire	2,000	-	2,000
Public works and other	1,195	1,590	(395)
Total Expenditures	<u>709,831</u>	<u>763,729</u>	<u>(53,898)</u>
Excess of revenues over (under) expenditures	<u>(28,783)</u>	<u>(52,411)</u>	<u>(23,628)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	(28,783)	(52,411)	(23,628)
FUND BALANCE			
Beginning of year	120,872	120,872	-
End of year	<u>92,089</u>	<u>68,461</u>	<u>(23,628)</u>

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

PROPRIETARY FUND FINANCIAL STATEMENTS

City of Lone Star, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
as of September 30, 2017

	Enterprise Fund	Total Proprietary Funds
ASSETS		
Current assets		
Cash and cash equivalents	425,363	425,363
Accounts receivable, net of allowance	87,424	87,424
Inventory	2,879	2,879
Due from other funds	115,999	115,999
Total current assets	631,665	631,665
RESTRICTED ASSETS		
Cash and cash equivalents	168,345	168,345
Total restricted assets	168,345	168,345
CAPITAL ASSETS		
Land and construction in progress	242,157	242,157
Other capital assets, net of accumulated depreciation	1,379,118	1,379,118
Total capital assets	1,621,275	1,621,275
Total assets	2,421,285	2,421,285
DEFERRED OUTFLOWS OF RESOURCES		
Deferred resource outflows TMRS	24,653	24,653
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	51,616	51,616
Due to other funds	-	-
Total current liabilities	51,616	51,616
Liabilities payable from restricted assets		
Notes payable, current	-	-
Total liabilities payable from restricted assets	-	-
Non-current liabilities		
Meter deposits	81,185	81,185
Notes payable, non current	-	-
Total non-current liabilities	81,185	81,185
Total liabilities	132,801	132,801
NET POSITION		
Invested in capital assets	1,621,275	1,621,275
Restricted for improvements and deposits	168,345	168,345
Unrestricted	523,517	523,517
Total net position	2,313,137	2,313,137

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

City of Lone Star, Texas
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the year ended September 30, 2017

	Enterprise Fund	Total Proprietary Funds
OPERATING REVENUES		
Charges for sales and services	679,322	679,322
Miscellaneous	-	-
Total Operating Revenues	679,322	679,322
OPERATING EXPENSES		
Personnel costs	240,609	240,609
Maintenance, operations, and contractual services	155,268	155,268
Materials and supplies	36,295	36,295
Water purchased	104,549	104,549
Depreciation	126,821	126,821
Total Operating Expenses	663,542	663,542
Net operating income (loss)	15,780	15,780
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,025	1,025
Interest on debt	-	-
Total nonoperating revenues (expenses)	1,025	1,025
Income (loss) before contributions and transfers	16,805	16,805
Transfers to other funds	-	-
Contributed capital-grants	-	-
Change in Net Position	16,805	16,805
Net position, beginning of year	2,296,332	2,296,332
Net position, end of year	2,313,137	2,313,137

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

City of Lone Star, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended September 30, 2017

	Enterprise Fund	Total Proprietary Funds
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	683,697	683,697
Cash payments to suppliers for goods and services	(274,267)	(274,267)
Cash payments to employees for services and benefits	(235,497)	(235,497)
Net cash provided by (used in) operating activities	<u>173,933</u>	<u>173,933</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Change in due from/ due to other funds	-	-
Transfers to other funds	(61,883)	(61,883)
Net cash provided by (used in) noncapital financing activities	<u>(61,883)</u>	<u>(61,883)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(22,440)	(22,440)
Principal paid on debt	-	-
Interest paid on debt	-	-
Grant proceeds	-	-
Net cash provided by (used in) capital and related financing activities	<u>(22,440)</u>	<u>(22,440)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	1,025	1,025
Net cash provided by (used in) investing activities	<u>1,025</u>	<u>1,025</u>
Net increase (decrease) in cash and cash equivalents	90,635	90,635
Cash and cash equivalents, beginning of year	<u>503,073</u>	<u>503,073</u>
Cash and cash equivalents, end of year	<u><u>593,708</u></u>	<u><u>593,708</u></u>
RECONCILIATION OF OPERATING INCOME		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	15,780	15,780
Adjustment to reconcile operating income (loss)		
to net cash provided by (used in) operating activities		
Depreciation and amortization	126,821	126,821
Decrease in accounts receivable and inventory	8,569	8,569
Increase in meter deposits	4,960	4,960
Increase in accounts payable and accrued expenses	17,803	17,803
Net cash provided by (used in) operating activities	<u><u>173,933</u></u>	<u><u>173,933</u></u>

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

COMPONENT UNIT

City of Lone Star, Texas
BALANCE SHEET
COMPONENT UNIT
 September 30, 2017

	<u>Economic Development Corporation</u>
ASSETS	
Cash and cash equivalents	112,308
Accounts receivable, net of allowances	<u>-</u>
TOTAL ASSETS	<u><u>112,308</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable and accrued expenses	<u>418</u>
TOTAL LIABILITIES	<u>418</u>
Fund Balances	
Unreserved and undesignated	<u>111,890</u>
TOTAL FUND BALANCES	<u>111,890</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>112,308</u></u>

The accompanying notes are an integral part of this statement.

City of Lone Star, Texas
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 COMPONENT UNIT
 for the year ended September 30, 2017

	<u>Economic Development Corporation</u>
REVENUES	
Sales tax	65,885
Interest	84
Total revenues	<u>65,969</u>
EXPENDITURES	
Current	
Economic development	6,084
General and administrative	2,837
Capital outlay	3,662
Total expenditures	<u>12,583</u>
Excess of expenditures over revenues	53,386
Fund balance at beginning of year	<u>58,504</u>
Fund balance at end of year	<u><u>111,890</u></u>

The accompanying notes are an integral part of this statement.

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Lone Star, Texas is a City government operating under the applicable laws and regulations of the State of Texas. It is governed by City Council elected by registered voters of the City. The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants.

A. REPORTING ENTITY

The City Council is elected by the public and it has the authority to make decisions and significantly influence operations. It has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity."

INDIVIDUAL COMPONENT UNIT DISCLOSURES-Discretely presented Component Units

The Lone Star Economic Development Corporation (LS EDC), is a non-profit corporation. The Corporation is organized exclusively for the purposes of promoting and developing the commercial, industrial, and manufacturing enterprises and to promote and encourage employment and the public welfare in the City of Lone Star, Texas. The Corporation is funded by a one-half of one percent sales and use tax. The Corporation does not provide services to the primary government; therefore, the Corporation is considered a discretely presented component unit, the Lone Star EDC does not have separately issued financial statements.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, charges for services, grants and other intergovernmental revenues. Business type activities include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include fees charges for water, sewer, and garbage service. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

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

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2017

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION continued

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

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

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

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

D. FUND ACCOUNTING

The City reports the following major governmental funds:

1. **The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Special Revenue Funds** --The city accounts for resources restricted to, or designated for, specific purposes by the city or a grantor in a special revenue fund.

Additionally, the City reports the following major proprietary fund:

1. **Enterprise Funds** -- The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The City's major Enterprise Fund is the water and sewer fund.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.
3. Capital assets, which include land, buildings, machinery and equipment and roads and bridges are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2017

E. OTHER ACCOUNTING POLICIES continued

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

Buildings, machinery and equipment of the City and the component units are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-25
Vehicles	5-10
Office equipment	10
Mobile equipment	5-7
General equipment	10
Water and sewer system	40
Streets	50

4. Some cash and investments are restricted for future debt payments.
5. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
6. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
7. Investments are recorded at fair market value.
8. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both government-wide and proprietary fund financial statements to the extent the those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.
9. The City implemented GASB Statement No. 63, Financial Reporting of Deferred Out flows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of item that qualifies for reporting in this category, property taxes. This amount will be recognized as an inflow of resources in the subsequent years as collected.

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

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2017

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. The details of capital assets at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land and construction in progress	375,739	-	375,739	
Buildings	148,478	(69,342)	79,136	
Improvements	442,893	(256,861)	186,032	
Machinery, equipment and vehicles	727,503	(437,093)	290,410	
Streets	200,000	(200,000)	-	
	<u>1,894,613</u>	<u>(963,296)</u>	<u>931,317</u>	<u>931,317</u>

Deferred resource outflows TMRS related to GASB 68 and 71 was \$55,277 and \$36,979 as of September 30, 2016 and 2017, respectively.

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays are expenditures in the fund financial statements, but should be shown as increases in capital assets in the government-wide statements. This adjustment affects both the net position balance and the change in net position. The details of this adjustment are as follows:

<u>Current year Capital Outlay</u>	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
Buildings	-	-	-
Construction	-	-	-
Machinery, equipment and vehicles	38,500	38,500	38,500
Total Capital Outlay	<u>38,500</u>	<u>38,500</u>	<u>38,500</u>
Adjustment to Net Position		<u>38,500</u>	<u>38,500</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

Formal budgetary integration is employed as a management control device during the year for the general fund. This budget is adopted on a basis consistent with generally accepted accounting principles. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

The budgets for the operating funds and proprietary fund operations are prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year the applicable purchase orders are expected to be issued. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

The City does not record encumbrances as part of its accounting records.

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2017

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

Additional contractual provisions governing deposits and investments for the City are as follows:

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

1. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The City’s policy regarding types of deposits allowed and collateral requirements is that the funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping in an amount sufficient to protect the City’s funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

Deposits of the city are insured or collateralized with an Irrevocable Standby Letter of Credit held by the pledging financial institution’s trust department or agent in the name of the City.

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 approximately \$754,000 and the bank balance was approximately \$809,000. The City’s cash deposits at September 30, 2017 and during the year ended September 30, 2017 were entirely covered by FDIC insurance or by a letter of credit issued on behalf of the depository.

In addition, the following is disclosed regarding coverage of combined balances as of September 30, 2017:

- a. Depository: The Lone Star State Bank
- b. Letter of credit issued securing deposits as of September 30, 2017 was \$700,000.
- c. Total amount of FDIC coverage at September 30, 2017 was \$250,000.

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2017

A. DEPOSITS AND INVESTMENTS continued

2. Custodial Credit Risk – Investments: For an investment, this is the risk, that in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Positions in external investment pools are not subject to custodial credit risk. The City has no investments exposed to custodial credit risk at the end of the period.
3. Interest-rate Risk – Interest-rate risk occurs when potential purchasers of debt securities do not agree to pay face value for these securities if interest rates rise. The City does not purchase investments where the face value is not guaranteed.
4. Concentration Risk – Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments in external investment pools are not subject to concentration risk. The City is not exposed to any amounts of concentration risk.
5. Other Credit Risk Exposure – The City has no investments in external investment pools.

B. PROPERTY TAXES

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

The 2016 assessed valuation (net of exemptions) was \$49,435,000 with a tax rate of \$0.52 per \$100 valuation. Property tax revenue available was \$259,000.

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND TRANSFERS AND BALANCES

Interfund balances are as follows:

Due from General Fund to:

Enterprise Fund	<u>61,883</u>
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City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2017

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2017, were as follows:

	Property Taxes	Charges for Services	Intergovern- mental	Other	Total Receivables
Governmental Activities:					
General Fund	51,811	31,810	11,733	24,556	119,910
Major Special Revenue fund	-	-	-	-	-
Total - Governmental Activities	<u>51,811</u>	<u>31,810</u>	<u>11,733</u>	<u>24,556</u>	<u>119,910</u>
Amounts not scheduled for collection during the subsequent year	<u>20,724</u>	<u>1,991</u>	<u>-</u>	<u>-</u>	<u>22,715</u>
Business Type Activities:					
Major Enterprise Fund	-	95,120	-	-	95,120
Total-Business Type Activities	<u>-</u>	<u>95,120</u>	<u>-</u>	<u>-</u>	<u>95,120</u>
Amounts not scheduled for collection during the subsequent year	<u>-</u>	<u>7,696</u>	<u>-</u>	<u>-</u>	<u>7,696</u>

Payables at September 30, 2017, were as follows:

	Accounts	Salaries and Benefits	Due to Other Governments	Other	Total Payables
Governmental Activities:					
General Fund	29,174	2,533	-	-	31,707
Major Special Revenue fund	-	-	-	-	-
Total - Governmental Activities	<u>29,174</u>	<u>2,533</u>	<u>-</u>	<u>-</u>	<u>31,707</u>
Amounts not scheduled for payment during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business Type Activities:					
Major Enterprise Fund	23,916	27,700	-	-	51,616
Total-Business Type Activities	<u>23,916</u>	<u>27,700</u>	<u>-</u>	<u>-</u>	<u>51,616</u>
Amounts not scheduled for payment during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2017

E. CAPITAL ASSET ACTIVITY

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

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental Activities:				
Land and construction in progress	375,739	-	-	375,739
Buildings	148,478	-	-	148,478
Improvements	442,893	-	-	442,893
Machinery, equipment and vehicles	727,503	38,500	-	766,003
Streets	200,000	-	-	200,000
Totals at Historic Cost	<u>1,894,613</u>	<u>38,500</u>	<u>-</u>	<u>1,933,113</u>
Less Accumulated Depreciation for:				
Buildings	(69,342)	(5,939)	-	(75,281)
Improvements	(221,448)	(22,145)	-	(243,593)
Machinery, equipment and vehicles	(472,506)	(109,196)	-	(581,702)
Streets	(200,000)	-	-	(200,000)
Total Accumulated Depreciation	<u>(963,296)</u>	<u>(137,280)</u>	<u>-</u>	<u>(1,100,576)</u>
Governmental Activities Capital Assets, Net	<u>931,317</u>	<u>(98,780)</u>	<u>-</u>	<u>832,537</u>
Business-Type Activities:				
Land and construction in progress	238,407	3,750	-	242,157
Water and sewer system	4,429,860	-	-	4,429,860
Mobile equipment	158,831	18,690	-	177,521
Office equipment	15,006	-	(13,511)	1,495
Totals at Historic Cost	<u>4,842,104</u>	<u>22,440</u>	<u>(13,511)</u>	<u>4,851,033</u>
Less Accumulated Depreciation for:				
Water and Sewer System	(2,957,169)	(119,370)	-	(3,076,539)
Mobile equipment	(144,422)	(7,314)	-	(151,736)
Office equipment	(14,857)	(137)	13,511	(1,483)
Total Accumulated Depreciation	<u>(3,116,448)</u>	<u>(126,821)</u>	<u>13,511</u>	<u>(3,229,758)</u>
Business-Type Activities Capital Assets, net	<u>1,725,656</u>	<u>(104,381)</u>	<u>(27,022)</u>	<u>1,621,275</u>
Primary Government Capital Assets, net	<u>2,656,973</u>	<u>(203,161)</u>	<u>(27,022)</u>	<u>2,453,812</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities		Business-Type Activities	
Unallocated	<u>137,280</u>	Water and sewer system	<u>126,821</u>
	<u>137,280</u>		<u>126,821</u>

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2017

F. CAPITAL ASSET ACTIVITY continued

Discretely Presented Component Unit

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

	Beginning Balance	Additions	Retirements	Ending Balance
Economic Development:				
Land and construction in progress	40,960	-	-	40,960
Machinery and equipment	29,900	-	-	29,900
Totals at Historic Cost	<u>70,860</u>	<u>-</u>	<u>-</u>	<u>70,860</u>
Less Accumulated Depreciation for:				
Machinery and equipment	(5,980)	(5,980)	-	(11,960)
Total Accumulated Depreciation	<u>(5,980)</u>	<u>-</u>	<u>-</u>	<u>(11,960)</u>
LS EDC Capital Assets, Net	<u>64,880</u>	<u>-</u>	<u>-</u>	<u>58,900</u>

G. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended September 30, 2017.

	Balance at 10/01/16	Issued	Retired	Balance at 9/30/17	Due Within One Year
Business-Type Activities:					
Notes payable	-	-	-	-	-
Total Business-Type Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The annual requirements to amortize the debt outstanding as of September 30, 2017 follows:

Year Ending 9/30	Principal	Interest	Total
2018	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>

H. DEFINED BENEFIT PENSION PLANS

Plan Description

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

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

Benefits Provided

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

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

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2017

H. DEFINED BENEFIT PENSION PLANS continued

Employees covered by benefit terms.

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

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	13
Active employees	<u>11</u>
	28

Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 3.01% and 2.72% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$12,502 and were equal to the required contributions.

Net Pension Liability

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

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.5% per year
Investment Rate of Return	6.75% per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. 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 Disabled Retiree Mortality Table is used, with slight adjustments.

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 January 1, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study. These assumptions were used along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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 Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2017

H. DEFINED BENEFIT PENSION PLANS continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (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%
Total	100.0%	

Discount Rate

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

Changes in the Net Pension Liability

	Increase (decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at December 31, 2015	\$ 1,316,105	\$ 1,330,998	\$ (14,893)
Changes for the year:			
Service cost	32,928	-	32,928
Interest	88,081	-	88,081
Change of benefit terms	-	-	-
Difference between expected and actual experience	(21,986)	-	(21,986)
Changes of assumptions	-	-	-
Contributions - employer	-	11,323	(11,323)
Contributions - employee	-	20,005	(20,005)
Net investment income	-	89,894	(89,894)
Benefit payments, including refund of employee contributions	(55,328)	(55,328)	-
Administrative expense	-	(1,016)	1,016
Other changes	-	(55)	55
Net changes	\$ 43,695	\$ 64,823	\$ (21,128)
Balance at December 31, 2016	\$ 1,359,800	\$ 1,395,821	\$ (36,021)

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2017

H. DEFINED BENEFIT PENSION PLANS continued

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

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

	1% Decrease in Discount Rate <u>(5.75%)</u>	Discount Rate <u>(6.75%)</u>	1% Increase in Discount Rate <u>(7.75%)</u>
City's net pension liability	\$ 135,914	\$ (36,021)	\$ (179,011)

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.

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 \$35,912.

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	-	15,946
Changed is actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	42
Contributions subsequent to the measurement date	-	-
Total	-	15,988

\$9,330 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2017	7,485
2018	10,431
2019	14,365
2020	(12)
Thereafter	-

I. COMMITMENTS

The City entered into a non-cancellable contract with the Northeast Texas Municipal Water District (NTMWD) for the purchase of treated water. \$104,549 was paid for water purchases during the year ended September 30, 2017.

J. HEALTH CARE COVERAGE

During the year ended September 30, 2017, employees of the City of Lone Star were covered by a health insurance plan with the Texas Municipal League. The City pays approximately \$6,000 monthly.

The contract between the City of Lone Star and the insurer is renewable October 1, 2017, and terms of coverage and premium costs are included in the contractual provisions.

City of Lone Star, Texas
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2017

K. RESTRICTED ASSETS

Certain enterprise fund assets are restricted for meter deposits.

L. CONTINGENCIES

Litigation

There are no lawsuits pending against the City.

Federal Award Programs (Grants)

The City has received Federal and State Awards for specific purposes that are subject to review and audit by the grantor agencies. Such audits could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the appropriate agency. City management does not believe that any significant costs will be incurred by the City.

M. RESERVED FUND EQUITY

Reservations of fund equity show amounts that are legally restricted for specific purposes. The purpose for each is indicated by the account title on the face of the balance sheet.

N. RISK MANAGEMENT

The City is exposed to various risks of loss to torts of theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2017, the City purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

O. DEFERRED INFLOWS OF RESOURCES

In the government wide statements and the governmental fund financial statements, the amount of the property taxes receivable expected to be collected in the future is reflected as a deferred inflow of resources and will be recognized as such each year as it is collected.

P. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 9, 2018, the financial statement issuance date.

REQUIRED SUPPLEMENTARY INFORMATION

City of Lone Star, Texas
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
At December 31,

	2016	2015	2014
Total pension liability			
Service Cost	32,928	32,191	30,036
Interest (on the Total Pension Liability)	88,081	88,020	83,082
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(21,986)	(37,498)	(1,592)
Changes of assumptions	-	8,593	-
Benefit payments, including refunds of employee contributions	(55,328)	(33,067)	(51,046)
Net change in total pension liability	43,695	58,239	60,480
Total pension liability - beginning	1,316,105	1,257,866	1,197,386
Total pension liability - ending	<u>1,359,800</u>	<u>1,316,105</u>	<u>1,257,866</u>
Plan fiduciary net position			
Contributions - employer	11,323	12,483	15,647
Contributions - employee	20,005	19,970	20,975
Net investment income	89,894	1,962	72,843
Benefit payments, including refunds of employee contributions	(55,328)	(33,067)	(51,046)
Administrative expense	(1,016)	(1,196)	(760)
Other	(55)	(59)	(63)
Net change in plan fiduciary net position	64,823	93	57,596
Plan fiduciary net position - beginning	1,330,998	1,330,904	1,273,308
Plan fiduciary net position - ending	<u>1,395,821</u>	<u>1,330,997</u>	<u>1,330,904</u>
Net pension liability	<u>(36,021)</u>	<u>(14,892)</u>	<u>(73,038)</u>
Plan fiduciary net position as a percentage of the total pension liability	102.65%	101.13%	105.81%
Covered-employee payroll	400,096	399,392	419,499
Net pension liability as a percentage of covered employee payroll	-9.00%	-3.73%	-17.41%

NOTES:

Changes of benefit terms

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

Changes of assumptions

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

REPORT ON INTERNAL CONTROLS AND COMPLIANCE



CPAs & Advisors

Bob J. Arnold, CPA, PFS
Lanny G. Walker, CPA, PFS
Kris Arnold, CPA, PFS
Andrew Arnold, CPA
Melissa J. Godfrey, CPA

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 Lone Star
Lone Star, Texas**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Lone Star, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Lone Star, Texas basic financial statements, and have issued our report thereon dated May 9, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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.

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.
May 9, 2018

City of Lone Star, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the City of Lone Star, Texas was unmodified.
- b. Where applicable, a statement that control deficiencies in internal control were disclosed by the audit of the financial statements and whether they were material weaknesses. None.
- c. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee. None.
- d. Where applicable, a statement that control deficiencies in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses. N/A
- e. The type of report the auditor issued on compliance for major programs. N/A
- f. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section .510(a). N/A
- g. An identification of major programs: N/A
- h. The dollar threshold used to distinguish between Type A and Type B programs. N/A
- i. A statement as to whether the auditee qualified as a low risk auditee. N/A

II. Findings Relating to the Financial Statements Which are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

N/A

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I. f Above

N/A

City of Lone Star, Texas
SCHEDULE OF STATUS OF PRIOR FINDINGS
For the year ended September 30, 2017

N/A

CORRECTIVE ACTION PLAN
For the year ended September 30, 2017

N/A