

CITY OF

FRIENDSWOOD

COMPREHENSIVE ANNUAL FINANCIAL REPORT



LAKE FRIENDSWOOD PARK



FISCAL YEAR

2017 - 2018

City of
Friendswood
Texas

CITY OF FRIENDSWOOD, TEXAS

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED**

September 30, 2018

Officials Issuing Report:

**Morad Kabiri
City Manager**

**Katina Hampton
Director of Administrative Services**

City of
Friendswood
Texas

CITY OF FRIENDSWOOD, TEXAS
TABLE OF CONTENTS

	<u>Page</u>
Introductory Section	
Letter of Transmittal	i
Principal Officials	v
GFOA Certificate of Achievement	vi
Organizational Chart	vii
Financial Section	
Report of Independent Auditors	3
Management's Discussion and Analysis	8
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	23
Statement of Activities	24
Fund Financial Statements:	
Balance Sheet - Governmental Funds	26
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	27
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	29
Statement of Net Position - Proprietary Funds	30
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	32
Statement of Cash Flows - Proprietary Funds	33
Notes to the Financial Statements	35

CITY OF FRIENDSWOOD, TEXAS
TABLE OF CONTENTS (continued)

Page

Financial Section (continued)

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	74
Notes to Budgetary Schedule Information	82
Schedule of Changes in the Net Pension Liability and Related Ratios - Texas Municipal Retirement System -	84
Schedule of City Contributions - Texas Municipal Retirement System -	85
Schedule of Changes in the Total OPEB Liability and Related Ratios - Texas Municipal Retirement System Supplemental Death Benefits Fund	86
Schedule of Changes in the Total OPEB Liability and Related Ratios - City of Friendswood Retiree Health Care Plan	87

Other Supplementary Information:

Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - Nonmajor Governmental Funds	92
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	94
Schedule of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual:	
Bond Construction	96
Police Investigation	97
Fire/EMS Donation	98
Court Security and Technology	99
Debt Service	100
1776 Park	101
Sidewalk Installation	102
Park Land Dedication	103
Street Improvement	104

CITY OF FRIENDSWOOD, TEXAS
TABLE OF CONTENTS *(continued)*

	<u>Table</u>	<u>Page</u>
Unaudited Statistical Section:		
Net Position by Component	1	108
Changes in Net Position	2	110
Fund Balances of Governmental Funds	3	114
Changes in Fund Balances of Governmental Funds	4	116
Assessed Value and Taxable Value of Property	5	118
Direct and Overlapping Property Tax Rates	6	120
Principal Property Taxpayers	7	121
Property Tax Levies and Collections	8	122
Ratios of Outstanding Debt by Type	9	123
Ratio of Net General Bonded Debt Outstanding	10	124
Direct and Overlapping Governmental Activities Debt	11	125
Legal Debt Margin Information	12	126
Pledged Revenue Coverage	13	127
Demographic and Economic Statistics	14	128
Principal Employers	15	129
Full-Time Equivalent City Government Employees by Function/ Program	16	130
Operating Indicators by Function/ Program	17	132
Capital Asset Statistics by Function/ Program	18	134

City of
Friendswood
Texas

INTRODUCTORY SECTION

City of
Friendswood
Texas



CITY OF FRIENDSWOOD

March 22, 2019

The Honorable Mayor, Members of the City Council, and the Citizens of Friendswood:

The Comprehensive Annual Financial Report (CAFR) of the City of Friendswood for the fiscal year ended September 30, 2018, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes a list of principal officials, this transmittal letter, and the City's organizational chart. The financial section includes the auditor's report on the financial statements, a Management Discussion and Analysis (MD&A), the basic financial statements, required supplementary information and combining and individual fund financial statements and schedules. The MD&A, found immediately following the report of the independent auditor, is a narrative introduction; overview and analysis required by generally accepted accounting principles (GAAP). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

The City Charter requires an annual audit of the financial statements of all of the various funds of the City by independent certified public accountants. The accounting firm of Whitley Penn LLP has performed such an audit and their opinion has been included in this report.

PROFILE OF THE CITY

Established in 1895 as a Quaker colony, the City of Friendswood is rich in heritage. The City was incorporated in 1960 and chartered a home-rule city under Texas law in 1971. The City operates under a Council-Manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the Mayor and six (6) Council Members. The Mayor and Council are responsible, among other things, for passing ordinances, adopting the budget, appointing board and committee members and hiring the City Manager, City Attorney, Municipal Judge, and City Secretary. The City Manager is responsible for carrying out the policies and ordinances of the City Council and overseeing the day-to-day operations of the City government, and for appointing heads of various departments. The Mayor and Council are elected on an at-large, non-partisan basis. The Mayor and Council are elected to serve no more than four consecutive three-year terms.

The City provides a full range of municipal services including public safety (police, fire and emergency medical), maintenance of streets and infrastructure, sanitation services, maintenance of the treated waste distribution system and both sanitary and storm sewer collection transmission systems, recreational activities and cultural events as well as general administrative services.

FACTORS AFFECTING FINANCIAL CONDITION

Location

Encompassing 21 square miles, Friendswood is located in southeast Texas near the Texas Gulf Coast, between downtown Houston and Galveston, spanning across two counties – northern Galveston County and southern Harris County. The current estimated population is 41,003. Residents and visitors can access Friendswood through FM 2351, FM 518, and FM 528 (NASA Parkway). Hobby Airport and Ellington Airport are located within a 15 minute drive from Friendswood, and Bush Intercontinental Airport is just 45 minutes away. Major sectors of the area’s economic base include aerospace, specialty chemicals, health care, retail, and tourism.

Community

Friendswood has been nationally recognized as one of the best places to live in the country. With low tax rates, outstanding public education, and the lowest crime rate in the region, Friendswood is the perfect place to live, work, and play. The city features beautiful parks and lush landscaping, along with a championship golf course. Children academically excel via two superior public school systems – Friendswood ISD and Clear Creek ISD. These attributes perfectly match Friendswood’s affluent resident base of well-educated, high-income families. More than 50% of residents work in executive, professional, and managerial positions. The average household income is \$140,321 and the median household income is \$100,032.

Business

Friendswood is the perfect choice for many types of commercial enterprises. Target markets include professional offices, retail, commercial, and light industrial developments. A key City focus is to encourage redevelopment of the downtown area and development of the City’s panhandle area. City leaders have approved special tools and incentives to revitalize downtown to promote mixed-use, multi-story developments with pedestrian streetscapes and other amenities. The City offers competitive business incentives, including a municipal grant program, tax abatement that includes “green” development, freeport tax exemption, and downtown development fee waivers. Additionally, the City received a \$2

million EDA grant that provided utilities to serve a large commercial area located at the northeast corner of the City along FM 2351 near Beamer Road and Interstate 45. This commercial area will provide opportunities for new construction, employment and sales tax revenue in the City.

Quality Lifestyle

As with any city, the goal is planning for continued quality growth to create a well-balanced community. Friendswood offers single-family residential housing in pleasant park-like settings, tucked-away from the busy stream of vehicular traffic. Friendswood is committed to attracting more local enterprises that will complement and enhance the unique community environment that has been carefully built over the past 100 years; one that has come to be cherished by residents and business owners alike.

LONG TERM PLANNING

Budgeting Controls

The objective of the City's budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by Council. The charter requires the City Manager to submit a proposed budget and an accompanying message to the City Council on or before August 1. The council shall review and revise as deemed appropriate prior to general circulation for the public hearing. The Public Notice and Hearing must be posted in the city hall and published in the official newspaper. The budget must be adopted by the 15th of September or as soon thereafter as practical. The City legally adopts annual budgets for the General, Special Revenue and Debt Service Funds. Annual and project budgets are also adopted for the Proprietary and Capital Projects Funds, respectively.

The level of budgetary control; that is, the level at which expenditures cannot legally exceed the appropriated amount, is established by department within a fund. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbrances lapse at fiscal year end, but can be re-appropriated through a budget amendment the following fiscal year. The City Manager is authorized to transfer budgeted amounts between departments within any fund, but revisions that increase the total expenditures of any fund must be approved by Council.

Multi-Year Financial Planning

A Multi-Year financial plan (MYFP) was developed in 2006. Originally, staff was directed to develop a plan to forecast the City's financial condition through 2020, the projected build-out date. The first version of this plan was drafted and later reduced in scope to a five year projection.

The MYFP is based on the City's strategic planning efforts, including the Comprehensive Land Use Plan, Vision 2020 and the Capital Improvements Plan. Departmental operational plans funding requirements to provide programs and services are included in the MYFP as well. Funding needs and available resources, both current and alternative revenue enhancements, are identified. Expenditures are projected based on departmental needs assessments and are organized based on "one-time" and "on-going" expenditures. In collaboration with Council, the plan is updated at least annually and serves as the basis of budget development.

Relevant Financial Policies

As part of the annual budget process, the City adopts Financial Management Policy Statements that establish a framework for fiscal decision making and that ensure that financial resources are available to meet the present and future needs of its citizens. These statements provide guidelines for financial planning and management, addressing every major financial function and process.

Most importantly, the Financial Management Policy requires that the City maintain the General Fund unassigned fund balance at a minimum of 90 days of prior year audited operating expenditures. Any unassigned funds after the fiscal year-end audit will be allowed to accumulate to build this 90-day reserve. After the General Fund has gathered sufficient resources, additional unassigned funds will be allowed to accumulate for future General Fund capital improvements.

The Financial Management Policy also requires the minimum working capital in the Water and Sewer Fund be 90 days of prior year audited operating expenditures. Any unrestricted funds after the fiscal year-end audit will be allowed to accumulate to build this 90-day reserve. After these funds have gathered sufficient resources, additional unrestricted funds will be allowed to accumulate in working capital for future utility /operating fund capital improvements.

Awards

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Friendswood for its comprehensive annual financial report for the fiscal year ended September 30, 2017. This was the thirty-first consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of the comprehensive annual financial report was made possible by the dedicated service of the entire staff of the Administrative Services Department. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report.

In closing, I also express my thanks to the Mayor, members of the City Council and the City Manager for their leadership, interest and support in conducting the financial operations of the City in a responsible and progressive manner.

Sincerely,

A handwritten signature in cursive script that reads "Katina Hampton". The signature is written in black ink and is positioned below the word "Sincerely,".

Katina Hampton
Director of Administrative Services

CITY OF FRIENDSWOOD, TEXAS**PRINCIPAL OFFICIALS***September 30, 2018*

Elected Officials	Position	Term Expires
Mike Foreman	Mayor	May 2021
Steve Rockey	Council Member - Position No. 1	May 2021
Sally Branson	Council Member - Position No. 2	May 2020
Trish Hanks	Council Member - Position No. 3	May 2021
Robert J. Griffon	Council Member - Position No. 4	May 2019
John H. Scott	Council Member - Position No. 5	May 2020
Carl W. Gustafson	Council Member - Position No. 6	May 2019

Key Staff	Position
Morad Kabiri	City Manager
Steven Rhea	Assistant City Manager
Katina Hampton	Director of Administrative Services
Terry Byrd	Fire Marshal/Emergency Management Coordinator
Patrick Donart	Director of Public Works
Melinda Welsh	City Secretary
James Toney	Director of Parks and Recreation
Robert B. Wieners	Police Chief
Mary K. Fischer	City Attorney
James W. Woltz	Judge - Municipal Court



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Friendswood
Texas**

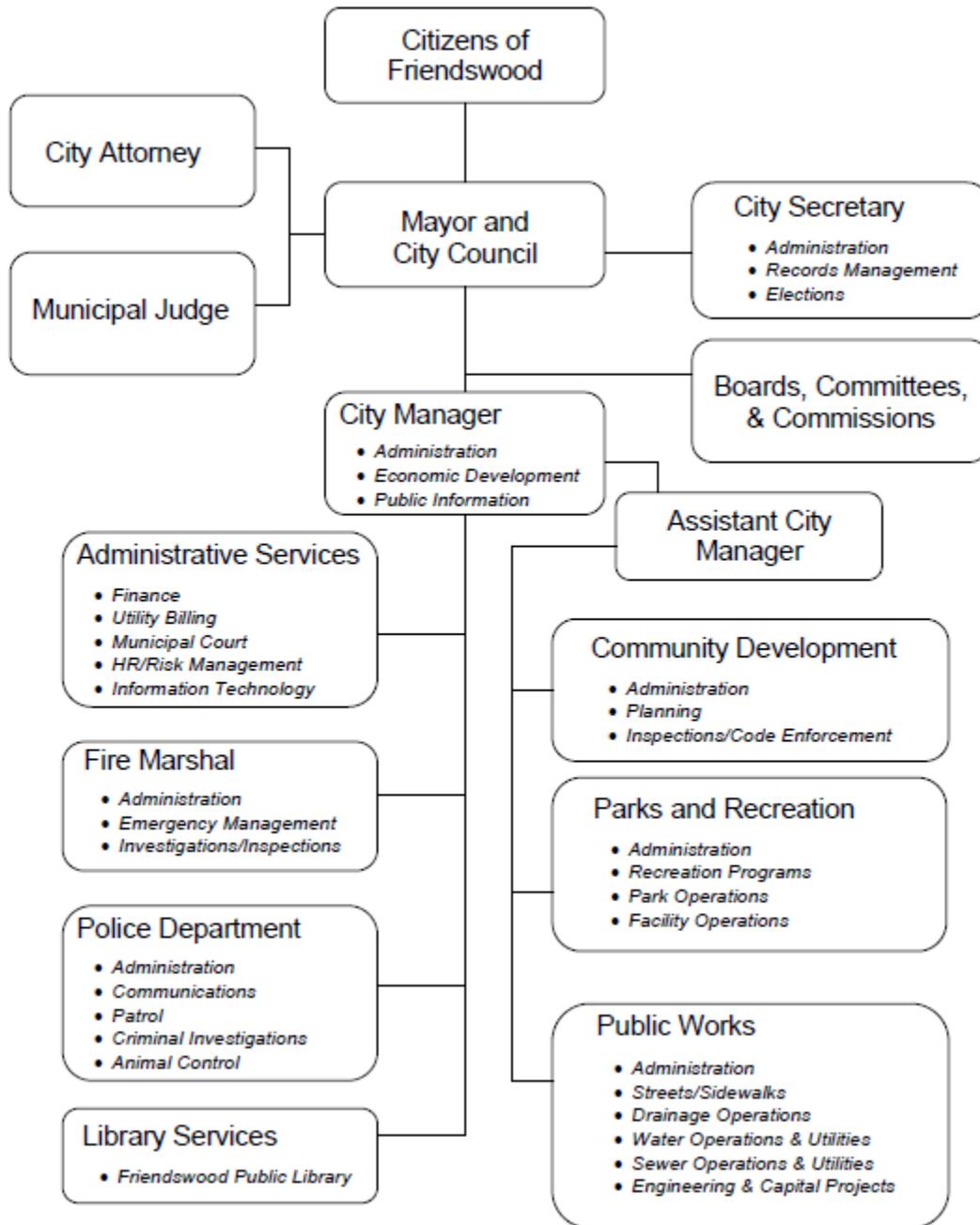
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2017

Christopher P. Morill

Executive Director/CEO

CITY OF FRIENDSWOOD, TEXAS
ORGANIZATIONAL CHART





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FINANCIAL SECTION



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REPORT OF INDEPENDENT AUDITORS

The Honorable Mayor and
Members of the City Council
City of Friendswood, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Friendswood, Texas (the “City”), as of and for the year ended September 30, 2018, 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 did not audit the financial statements of West Ranch Management District, which is a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it related to the amounts included for the West Ranch Management District, is based solely on the report of the other auditors. 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. The financial statements of the West Ranch Management District were not audited in accordance with *Government Auditing Standards*.

The Honorable Mayor and
Members of the City Council
City of Friendswood, Texas

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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Notes 1 and 10 to the financial statements, the City adopted the provisions of Government Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of September 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 8 through 19, budgetary comparison information on pages 74 through 83, pension system supplementary information and other post-employment benefit supplementary information on pages 84 through 87, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Honorable Mayor and
Members of the City Council
City of Friendswood, Texas

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2019, 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 and has been issued under separate cover.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
March 22, 2019



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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF FRIENDSWOOD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Statements

The government-wide financial statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources with the difference reported as *net position*. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or significant portion of their costs through user fees (business-type activities).

- Governmental activities – Most of the City's basic services are reported here including general government (mayor and council, city secretary, city manager, and administrative services); public safety (police, volunteer fire department and fire marshal); public works (streets and drainage); community development (engineering, building inspection and planning and zoning); community services (parks, facility operations and community activities) and library. Interest payments on the City's debt are also reported here. Property tax, sales tax, franchise taxes, municipal court fines and permit fees finance most of the activities.
- Business-type activities – Services involving a fee for those services, which include the City's water and sewer system are reported here.

Component Units – activities include activities of the West Ranch Management District and Friendswood Downtown Economic Development Corporation.

Fund Financial Statements

A fund is a self-balancing set of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City uses two fund types – governmental and proprietary.

CITY OF FRIENDSWOOD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental Funds

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

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

The City maintains ten governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund and Bond Construction Fund which are considered to be major funds. The other eight funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements found in this report.

Proprietary Funds

The City maintains two types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its operation in water distribution and wastewater collection/treatment along with its water and wastewater impact fees, and water construction projects. Management would note that trash collection services are provided by a third party contract.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for fleet management services. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information ("RSI"). The RSI includes a schedule of funding progress for the City's other post-employment healthcare benefits and two schedules related to the City's pension with the Texas Municipal Retirement System ("TMRS"). The City adopts an annual appropriated budget for its General Fund. Budgetary comparison schedules have been provided in RSI to demonstrate compliance with this budget. RSI can be found after the basic financial statements.

CITY OF FRIENDSWOOD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The combining statement and individual fund schedules that further support the information in the financial statements are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$119,946,620 as of September 30, 2018 in the primary government, which is a decrease in the City's overall financial position compared to the prior year.

The largest portion of the City's net position (79.5%) reflects its investments in capital assets (e.g., land, buildings and improvements, machinery and equipment, infrastructure, water and sewer system, construction in progress and water rights); less any debt outstanding used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the assets themselves cannot be used to liquidate these liabilities.

The following table reflects the condensed Statement of Net Position.

	City of Friendswood's Net Position					
	Governmental Activities		Business Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 26,380,091	\$ 26,832,792	\$ 16,558,162	\$ 17,861,201	\$ 42,938,253	\$ 44,693,993
Capital assets	98,051,133	102,145,795	60,852,047	61,387,988	158,903,180	163,533,783
Total assets	124,431,224	128,978,587	77,410,209	79,249,189	201,841,433	208,227,776
Deferred outflows of resources	2,526,225	4,824,499	1,131,793	1,464,777	3,658,018	6,289,276
Total assets and deferred outflows of resources	126,957,449	133,803,086	78,542,002	80,713,966	205,499,451	214,517,052
Long-term liabilities	44,331,338	49,063,412	35,757,863	38,436,834	80,089,201	87,500,246
Other Liabilities	1,832,500	3,192,407	1,212,658	1,989,388	3,045,158	5,181,795
Total Liabilities	46,163,838	52,255,819	36,970,521	40,426,222	83,134,359	92,682,041
Deferred inflows of resources	2,138,179	849,565	280,293	136,848	2,418,472	986,413
Net position:						
Net investment in capital assets	68,320,682	72,631,192	27,088,280	29,305,429	95,408,962	101,936,621
Restricted	4,085,999	2,534,312	582,697	260,703	4,668,696	2,795,015
Unrestricted	6,248,751	5,532,198	13,620,211	10,584,764	19,868,962	16,116,962
Total net position	\$ 78,655,432	\$ 80,697,702	\$ 41,291,188	\$ 40,150,896	\$ 119,946,620	\$ 120,848,598

A portion of the primary government's net position, \$4,668,696 or 3.9%, represents resources that are subject to external restrictions on how they may be used. These restrictions include monies accounted for in special revenue funds for which the use is legally restricted and capital project funds. The remaining balance of unrestricted net position, \$19,868,962 or 16.6%, may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF FRIENDSWOOD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The following table provides a summary of the City's changes in net position.

City of Friendswood's Changes in Net Position

	Governmental Activities		Business Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Charges for services	\$ 2,287,138	\$ 2,737,415	\$ 12,183,711	\$ 12,295,441	\$ 14,470,849	\$ 15,032,856
Operating grants and contributions	4,924,228	2,591,025	-	-	4,924,228	2,591,025
Capital grants and contributions	-	219,808	-	-	-	219,808
General Revenues:						
Property taxes	17,608,094	17,270,647	-	-	17,608,094	17,270,647
Sales and alcohol taxes	7,965,662	6,482,367	-	-	7,965,662	6,482,367
Franchise taxes	1,617,121	1,661,654	-	-	1,617,121	1,661,654
Investment earnings	321,468	187,001	200,449	141,978	521,917	328,979
Miscellaneous	263,245	157,638	-	-	263,245	157,638
Total revenues	34,986,956	31,307,555	12,384,160	12,437,419	47,371,116	43,744,974
Expenses						
General government	5,734,611	5,128,399	-	-	5,734,611	5,128,399
Public safety	17,538,040	15,861,719	-	-	17,538,040	15,861,719
Public works	6,267,824	4,429,664	-	-	6,267,824	4,429,664
Community development	945,701	1,495,001	-	-	945,701	1,495,001
Parks and recreation	4,554,114	3,459,053	-	-	4,554,114	3,459,053
Library services	1,210,207	1,215,683	-	-	1,210,207	1,215,683
Water and sewer	-	-	9,019,197	8,502,218	9,019,197	8,502,218
Interest on long-term debt	953,509	953,146	1,029,715	1,086,278	1,983,224	2,039,424
Total Expenses	37,204,006	32,542,665	10,048,912	9,588,496	47,252,918	42,131,161
Increase (decrease) in net position						
before transfers	(2,217,050)	(1,235,110)	2,335,248	2,848,923	118,198	1,613,813
Transfers	1,554,849	1,358,744	(1,554,849)	(1,358,744)	-	-
Change in net position	(662,201)	123,634	780,399	1,490,179	118,198	1,613,813
Net position - beginning	80,697,702	80,574,068	40,150,896	38,660,717	120,848,598	119,234,785
Prior period adjustments	(1,380,069)	-	359,893	-	(1,020,176)	-
Net position - ending	\$ 78,655,432	\$ 80,697,702	\$ 41,291,188	\$ 40,150,896	\$ 119,946,620	\$ 120,848,598

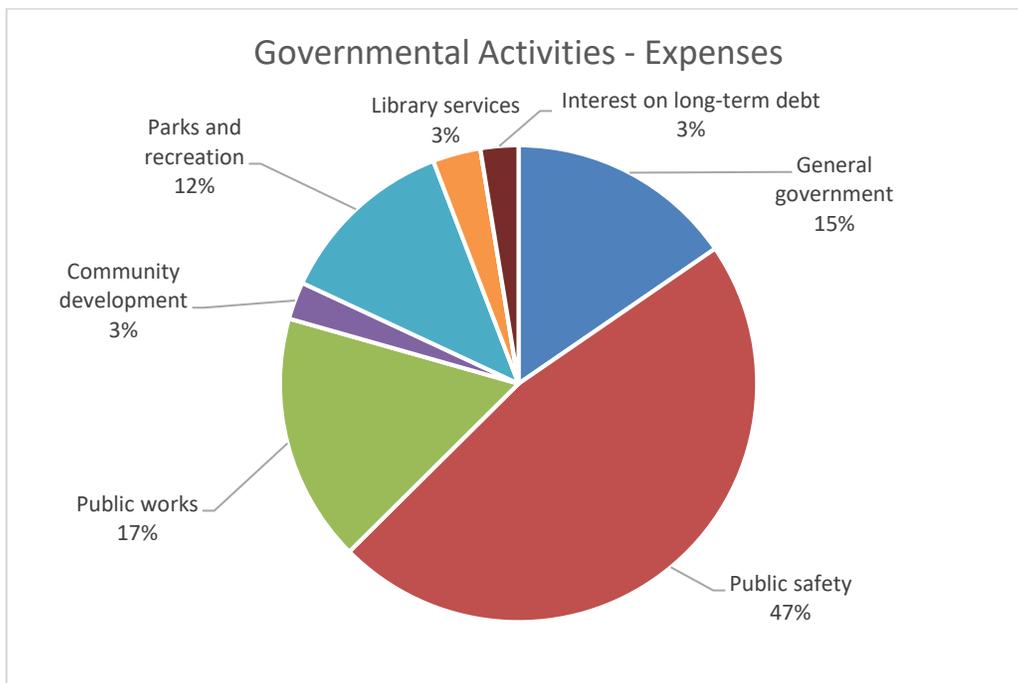
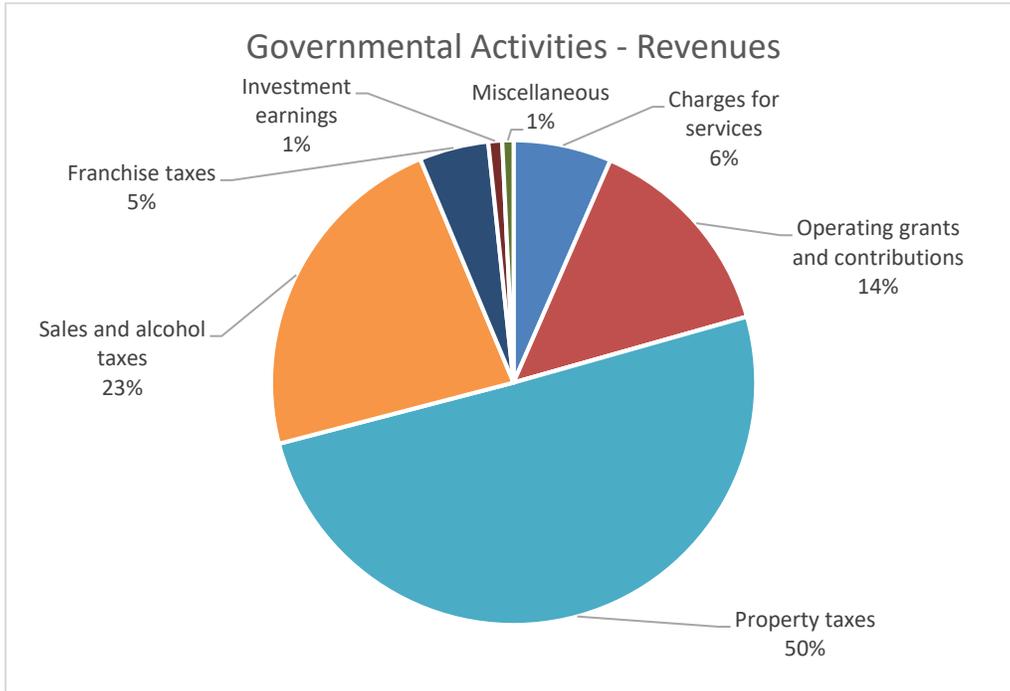
Governmental Activities

Governmental activities decreased the City's net position by \$662,201 from operations. Key elements of this change are as follows:

- Property taxes continue to be the City's largest revenue source. Property tax revenue increased by \$337,447 due to new construction within the City.
- Sales and alcohol tax revenue remained strong during fiscal year 2018, providing a 22.88% increase for the year, from \$6.5 million to \$8.0 million. This increase is primarily a result of repeal of the telecommunications sales tax exemption and first full year of additional ½ cent sales tax.
- Operating grants and contributions increased \$2.3 million from prior year, primarily due to FEMA assistance due to flooding caused by Hurricane Harvey during the prior fiscal year.

CITY OF FRIENDSWOOD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

- Total expenses increased \$4.7 million from the prior year. The largest increase was in Public Works (\$1.8 million). This increase is related to increased depreciation charged to this department as a result of reclassification of assets between departments in the current fiscal year. Public Safety expenses increased \$1.7 million primarily due to one-time expenditures resulting from Hurricane Harvey.

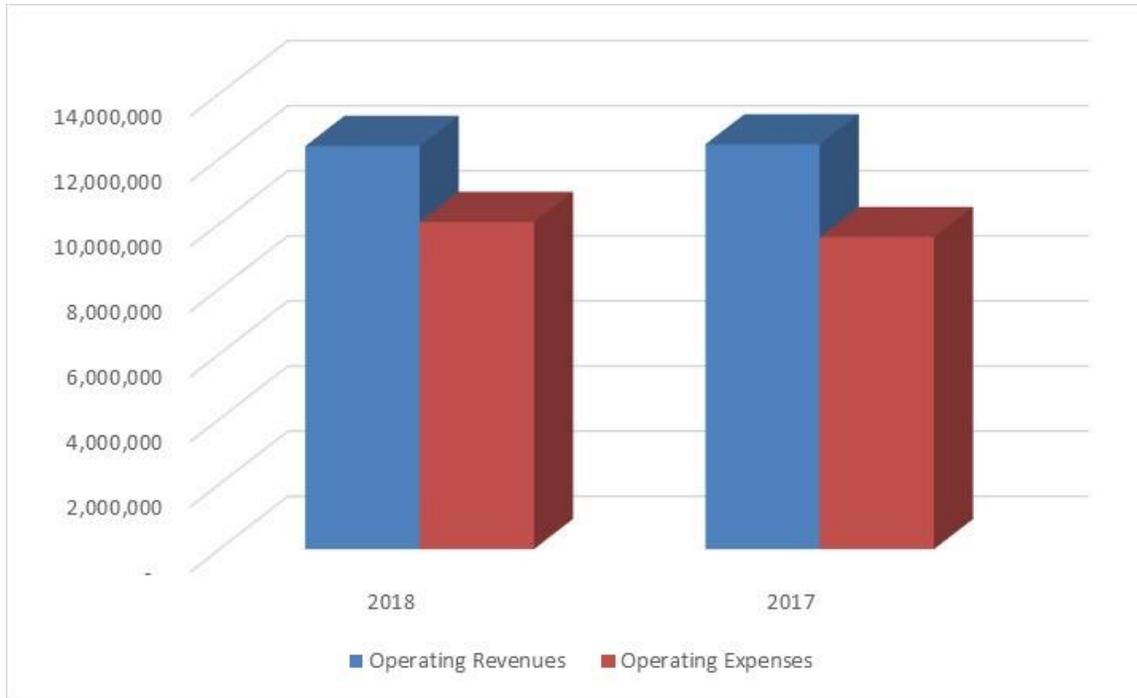


CITY OF FRIENDSWOOD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Business-Type Activities

Business-type activities increased the City's net position by \$780,399. Key elements of this change are as follows:

- Revenues decreased by \$53,259 or 0.4%; resulting from a decline in impact fees due to less new home construction. Expenses increased \$460,416 or 4.8% due to salary and associated benefits and additional water and sewer operational costs.



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$23,614,337. Approximately 38.33% of this amount (\$9,052,000) is unassigned fund balance; however, \$6.5 million is set aside for the 90-day operating reserve, as set forth in the City's financial policies.

CITY OF FRIENDSWOOD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The remaining \$14,562,337 is nonspendable, restricted, committed, or assigned as follows:

1.68% - Nonspendable		
Prepaid items	\$	147,948
Notes receivable		223,662
Permanent fund		24,307
	\$	<u>395,917</u>
42.08% - Restricted		
Public education and government channels	\$	631,971
Debt service		59,046
Municipal court operations		227,528
Public safety operations		343,632
Capital projects		8,674,518
	\$	<u>9,936,695</u>
17.91% - Assigned		
Purchases on order	\$	2,483,656
Capital projects		746,069
Galveston County Bond		
Project/Friendswood Lakes Blvd		1,000,000
	\$	<u>4,229,725</u>

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance reached \$14.285 million of which unassigned fund balance of the General Fund was \$9.1 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned and total fund balance to total fund expenditures. Unassigned fund balance represents 28.8% of total General Fund expenditures, while total fund balance represents 45.4% percent of that same amount. At year end, the City's operating reserve was \$6.5 million, representing 21% of total General Fund expenditures.

Key differences between last year's General Fund activity and this year's include:

- \$3.3 million increases in total revenues – sales tax increased due to the repeal of the telecommunications sales tax exemption and federal grant money received as a result of Hurricane Harvey.
- \$2.7 million increase in total expenditures – salary merit increases and associated benefits, and several one-time expenditures incurred as a result of the flooding in the prior year.

Fund balance in the Bond Construction Fund decreased \$836,942. This decrease was a result of capital expenditures of \$951,509 offset by investment earnings of \$114,567.

CITY OF FRIENDSWOOD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Proprietary Funds

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

At the end of the year, unrestricted net position was \$13,620,211 for the Water and Sewer Fund. The total increase in the net position of the Water and Sewer Fund was \$780,399 from operations. The City implemented GASB 75 and has a correction of an error in accounting for capital assets, which resulted in a positive prior period adjustment of \$359,893. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

Unrestricted net position of the Internal Service Fund was \$536,477. The net position of the Internal Service Fund increased by \$533,890 resulting from lease revenue from the City's participating funds and insurance proceeds related to Hurricane Harvey exceeding depreciation expense. A prior period adjustment related to capital asset accounting resulted in a negative amount of \$186,083.

General Fund Budgetary Highlights

The City made revisions to the original appropriations approved by the City Council. Budgeted revenues increased by \$4,100,235 or 16.5% and expenditures were increased by \$9,660,246 or 36.0%.

Total revenues were above budget by \$586,166. The more significant variances are detailed below:

- \$376,781 below budget in property taxes due to fewer of the property values under protest at the time of budget development becoming taxable than projected.
- \$632,610 above budget in sales taxes due to the repeal of the telecommunications sales tax exemption.
- \$163,955 above budget in intergovernmental revenue primarily as a result of funds received from local school districts for providing additional security immediately following a nearby school shooting.

Total expenditures of the General Fund were \$5,026,150 below the final expenditure budget. The more significant variances are detailed below:

- \$726,656 - below budget in general government expenditures as a result of payroll vacancies and a decrease in other services and charges (legal, contract, consulting, etc.).
- \$404,329 - below budget in public works due to payroll vacancies, decrease in streets and drainage repairs and a decrease in supplies and other services and charges.
- \$400,726 - below budget in parks and recreation expenditures due to decrease in other services and charges as a result of funds not being spent in current year that were appropriated for rental of facilities.
- \$3,179,689 - below budget in capital improvements due to projects either not being started or completed in the current fiscal year. These projects are primarily related to streets and drainage.

CITY OF FRIENDSWOOD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets

The City's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of September 30, 2018 is \$158,903,180. The investment in capital assets include land, buildings and improvements, machinery and equipment, infrastructure, water and sewer system, water rights and construction in progress.

Major capital events during the year included the following:

- Rehabilitation of six major streets within Friendswood city limits: Friendswood Link/Whispering Pines, Mary Ann Drive, Shadowbend Avenue, Townes Road, Winding Road and Woodlawn Avenue. The total cost of all six projects was approximately \$8.9 million.
- Completion of Water Plant #2 and #7 Replacement. The total cost of both projects was approximately \$3.35 million.
- Completion of Lift Station #3 and #8 Rehabilitation. The total cost of both projects was approximately \$2.14 million.
- The City purchased 24 new vehicles for Public Safety and Public Works, including 2 high water rescues vehicles. Most of these vehicles were replacements for vehicles lost in Hurricane Harvey. The total cost for all vehicles was approximately \$813,000.
- The portable radios for the City's Police Department were replaced with new radios which was approximately \$485,000.
- The following major projects are in Construction in Progress at the end of fiscal year 2018: Blackhawk Blvd Phase II, Old City Park Restrooms and Pavilion, Stevenson Park Pool Restrooms, Old City Park Parking Lot, Lift Station #23 Rehabilitation, Blackhawk Wastewater Treatment Plant – 3rd Clarifier addition, and a 42' Southeast Transmission Water Line Phase I.

City of Friendswood's Capital Assets

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 25,759,306	\$ 25,805,161	\$ 319,473	\$ 319,473	\$ 26,078,779	\$ 26,124,634
Buildings and improvements	23,283,754	37,698,577	397,877	335,681	23,681,631	38,034,258
Equipment and furniture	4,832,980	4,132,484	2,738,486	256,788	7,571,466	4,389,272
Infrastructure	41,660,541	24,075,329	31,505,264	29,326,598	73,165,805	53,401,927
Water rights	-	-	19,716,695	19,716,695	19,716,695	19,716,695
Construction in progress	2,514,552	10,434,244	6,174,252	11,432,753	8,688,804	21,866,997
	<u>\$ 98,051,133</u>	<u>\$ 102,145,795</u>	<u>\$ 60,852,047</u>	<u>\$ 61,387,988</u>	<u>\$ 158,903,180</u>	<u>\$ 163,533,783</u>

More detailed information on the City's capital assets is presented in Note 4 to the financial statements.

CITY OF FRIENDSWOOD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Debt Administration

At the end of the current fiscal year, the City had a total bonded debt, premiums and capital lease obligation of \$69,512,455.

City of Friendswood's Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 31,545,000	\$ 33,320,000	\$ 26,425,000	\$ 28,360,000	\$ 57,970,000	\$ 61,680,000
Revenue bonds	-	-	5,290,000	5,515,000	5,290,000	5,515,000
Premium on bond issuance	2,520,657	2,747,806	2,940,493	3,156,862	5,461,150	5,904,668
Capital leases	791,305	668,284	-	-	791,305	668,284
	<u>\$ 34,856,962</u>	<u>\$ 36,736,090</u>	<u>\$ 34,655,493</u>	<u>\$ 37,031,862</u>	<u>\$ 69,512,455</u>	<u>\$ 73,767,952</u>

The City's General Obligation and Revenue Bonds bond ratings are listed below:

	Standard & Poor's
General Obligation Bonds	AA+
Revenues Bonds	AA-

More detailed information about the City's outstanding debt can be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Friendswood continues to experience moderate growth. The City's current population is estimated to be 41,003. Friendswood is expected to reach build out with an estimated population of 57,000. The City is continuing to focus on economic development initiatives, including the revitalization of downtown and a large residential and commercial development called West Ranch. The West Ranch residential development is currently under way, with commercial construction scheduled to follow as the area's residential population growth.

The City's largest single source of revenue in the General Fund continues to be ad valorem taxes. The adopted budget for fiscal year 2019 has a tax rate of \$0.5324 per \$100 of taxable value. This rate consists of a maintenance and operations (M&O) tax rate of \$0.4372 and an interest and sinking (debt service) tax rate of \$0.0952. The rate was set based on a net assessed value of \$3,374,237,059. This is a decrease of \$46,594,112 from certified taxable values for tax year 2017. The City's financial management policy sets the guideline to maintain the fund balance and net position of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its financial position from unforeseeable emergencies.

CITY OF FRIENDSWOOD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The City's second largest source of revenue in the General Fund is sales tax. The City anticipates an increase in this revenue stream from the prior year and has adjusted the budget from \$5,717,840 to \$6,294,492. The franchise fees budget is decreased from \$1,709,283 to \$1,675,966 and the budget for license and permits has been increased from \$841,816 to \$849,000. If all projections are accurate, the total General Fund unassigned fund balance net of the 90 day operating requirement (\$6.5 million) is estimated to be approximately \$7.3 million at September 30, 2019.

Water revenues are budgeted at \$7,079,811 which is an increase of \$178,860 in revenues, or 2.6 percent. Sewer revenues are budgeted at \$5,194,823 which is an increase of \$296,897 or 6.1 percent. Water and Sewer Fund net position, net of the 90 day operating requirement (\$1.7 million), is projected to be \$8.6 million at the end of fiscal year 2019.

Pursuant to the City's financial management policy, funds in excess of the 90-day operating reserve are designated for future capital improvements.

Requests for Information

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finance and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Administrative Services, P.O. Box 1288, Friendswood, Texas 77549-1288, or call Katina Hampton at 281-996-3221, or email khampton@ci.friendswood.tx.us.

Separately issued financial statements for the West Ranch Management District can be obtained by writing to: West Ranch Management District, a Component Unity of the City of Friendswood, c/o Allen Boone Humphries LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.



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BASIC FINANCIAL STATEMENTS



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CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF NET POSITION
September 30, 2018

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	West Ranch Management District	Friendswood Downtown EDC
Assets					
Cash and cash equivalents	\$ 4,770,478	\$ 2,955,578	\$ 7,726,056	\$ 4,892,556	\$ 116,447
Investments	18,090,131	7,400,440	25,490,571	-	291,653
Receivables, net of allowances					
Taxes	2,130,620	-	2,130,620	8,700	95,810
Customer accounts	573,488	2,363,623	2,937,111	-	-
Other	11,061	-	11,061	57	-
Accrued interest	23,040	15,774	38,814	-	537
Due from other governments	409,663	-	409,663	8,250	-
Prepaid items	147,948	41,159	189,107	309	-
Notes receivable	223,662	-	223,662	-	-
Working capital deposit	-	389,080	389,080	-	-
Restricted cash equivalents	-	3,392,508	3,392,508	-	-
Capital Assets:					
Non-depreciable	28,273,858	26,210,420	54,484,278	6,839,035	-
Depreciable, net	69,777,275	34,641,627	104,418,902	399,166	-
Total Capital Assets	98,051,133	60,852,047	158,903,180	7,238,201	-
Total Assets	124,431,224	77,410,209	201,841,433	12,148,073	504,447
Deferred Outflows of Resources					
Deferred loss on issuance of refunding bonds	346,095	891,729	1,237,824	12,762	-
Deferred outflow of resources for pensions	2,077,186	224,761	2,301,947	-	-
Deferred outflow of resources for OPEB	102,944	15,303	118,247	-	-
Total Deferred Outflows of Resources	2,526,225	1,131,793	3,658,018	12,762	-
Total Assets and Deferred Outflows of Resources	126,957,449	78,542,002	205,499,451	12,160,835	504,447
Liabilities					
Accounts payable	872,891	545,075	1,417,966	60,842	-
Accrued liabilities	691,032	56,586	747,618	-	-
Retainage payable	36,026	2,528	38,554	4,251	-
Accrued interest	88,469	95,183	183,652	390,444	-
Customer deposits	131	513,286	513,417	-	-
Due to other governments	143,951	-	143,951	-	-
Noncurrent liabilities:					
Due within one year	2,345,237	2,231,650	4,576,887	800,000	-
Due in more than one year	33,277,454	32,507,093	65,784,547	22,930,510	-
Net pension liability	7,183,284	788,885	7,972,169	-	-
Total OPEB liability	1,525,363	230,235	1,755,598	-	-
Total Liabilities	46,163,838	36,970,521	83,134,359	24,186,047	-
Deferred Inflows of Resources					
Deferred gain on issuance of refunding bonds	-	39,420	39,420	-	-
Deferred Inflows of resources for pensions	2,138,179	240,873	2,379,052	-	-
Total Deferred Inflows of Resources	2,138,179	280,293	2,418,472	-	-
Net Position					
Net investment in capital assets	68,320,682	27,088,280	95,408,962	234,147	-
Restricted for:					
Public education and government channels	631,971	-	631,971	-	-
Debt service	-	407,562	407,562	1,861,188	-
Municipal court operations	227,528	-	227,528	-	-
Economic development	-	-	-	-	504,447
Public safety operations	343,632	-	343,632	-	-
Community development - nonexpendable	24,307	-	24,307	-	-
Capital projects	2,858,561	175,135	3,033,696	22,705	-
Unrestricted	6,248,751	13,620,211	19,868,962	(14,143,252)	-
Total Net Position	\$ 78,655,432	\$ 41,291,188	\$ 119,946,620	\$ (12,025,212)	\$ 504,447

See notes to the financial statements.

CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Primary government			
Governmental Activities:			
General government	\$ 5,734,611	\$ 861,271	\$ 17,500
Public safety	17,538,040	868,761	4,877,296
Public works	6,267,824	213,042	-
Community development	945,701	-	-
Parks and recreation	4,554,114	344,064	29,432
Library services	1,210,207	-	-
Interest on long-term debt	953,509	-	-
Total Governmental Activities	37,204,006	2,287,138	4,924,228
Business-type Activities:			
Water and sewer	10,048,912	12,183,711	-
Total Business-type Activities	10,048,912	12,183,711	-
Total Primary Government	\$ 47,252,918	\$ 14,470,849	\$ 4,924,228
Component Units			
West Ranch Management District	\$ 2,078,325	\$ -	\$ -
Friendswood Downtown EDC	336,497	-	-
Total Component Units	\$ 2,414,822	\$ -	\$ -

General revenues:

Taxes:

 Property taxes

 Franchise and other taxes

 Sales taxes

Interest

Miscellaneous

Transfers

Total general revenues and transfers

 Change in net position

Net Position - beginning

 Change in accounting principles

Net Position - beginning, as restated

Net Position - ending

See notes to the financial statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	West Ranch Management District	Friendswood Downtown EDC
\$ (4,855,840)	\$ -	\$ (4,855,840)	\$ -	\$ -
(11,791,983)	-	(11,791,983)	-	-
(6,054,782)	-	(6,054,782)	-	-
(945,701)	-	(945,701)	-	-
(4,180,618)	-	(4,180,618)	-	-
(1,210,207)	-	(1,210,207)	-	-
(953,509)	-	(953,509)	-	-
(29,992,640)	-	(29,992,640)	-	-
-	2,134,799	2,134,799	-	-
-	2,134,799	2,134,799	-	-
(29,992,640)	2,134,799	(27,857,841)	-	-
			(2,078,325)	-
			-	(336,497)
			(2,078,325)	(336,497)
17,608,094	-	17,608,094	2,292,105	-
1,617,121	-	1,617,121	-	-
7,965,662	-	7,965,662	-	523,283
321,468	200,449	521,917	12,721	-
263,245	-	263,245	5,500	-
1,554,849	(1,554,849)	-	-	-
29,330,439	(1,354,400)	27,976,039	2,310,326	526,927
(662,201)	780,399	118,198	232,001	190,430
80,697,702	40,150,896	120,848,598	(12,257,213)	314,017
(1,380,069)	359,893	(1,020,176)	-	-
79,317,633	40,510,789	119,828,422	(12,257,213)	314,017
\$ 78,655,432	\$ 41,291,188	\$ 119,946,620	\$ (12,025,212)	\$ 504,447

CITY OF FRIENDSWOOD, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2018

	General Fund	Bond Construction	Total Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 3,682,113	\$ -	\$ 923,785	\$ 4,605,898
Investments	9,219,121	6,150,856	2,307,942	17,677,919
Receivables, net of allowance:				
Taxes receivables	1,803,234	-	327,386	2,130,620
Customer accounts	519,037	-	2,715	521,752
Other receivables	59,224	-	3,573	62,797
Accrued interest	17,329	-	4,915	22,244
Due from other governments	409,663	-	-	409,663
Note receivable	223,662	-	-	223,662
Prepaid items	147,948	-	-	147,948
Total Assets	\$ 16,081,331	\$ 6,150,856	\$ 3,570,316	\$ 25,802,503
Liabilities, Deferred Inflows and Fund Balances				
Liabilities:				
Accounts payable	\$ 569,689	\$ 300,174	\$ 35,430	\$ 905,293
Accrued liabilities	617,627	-	-	617,627
Due to other governments	145,144	-	-	145,144
Customer deposits	131	-	-	131
Retainage payable	-	34,725	-	34,725
Total Liabilities	1,332,591	334,899	35,430	1,702,920
Deferred Inflows of Resources:				
Unavailable revenue	463,434	-	21,812	485,246
Total Deferred Inflows of resources	463,434	-	21,812	485,246
Fund Balances:				
Nonspendable:				
Prepaid items	147,948	-	-	147,948
Notes receivable	223,662	-	-	223,662
Permanent fund	-	-	24,307	24,307
Restricted:				
Public education and government channels	631,971	-	-	631,971
Municipal court operations	-	-	227,528	227,528
Debt service	-	-	59,046	59,046
Public safety operations	-	-	343,632	343,632
Capital projects	-	5,815,957	2,858,561	8,674,518
Assigned:				
Purchases on order	2,483,656	-	-	2,483,656
Capital projects	746,069	-	-	746,069
Galveston County Bond Project/Friendswood Lakes Blvd	1,000,000	-	-	1,000,000
Unassigned	9,052,000	-	-	9,052,000
Total Fund Balances	14,285,306	5,815,957	3,513,074	23,614,337
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 16,081,331	\$ 6,150,856	\$ 3,570,316	\$ 25,802,503

See notes to the financial statements.

CITY OF FRIENDSWOOD, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2018

Total fund balance, governmental funds \$ 23,614,337

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 97,015,592

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. 1,572,018

Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.

Bonds and certificates of obligation payable	(31,545,000)
Capital leases payable	(791,305)
Compensated absences	(765,729)
Accrued interest payable	(88,469)
Unamortized premium on bonds	(2,520,657)

Unavailable revenues in the governmental fund statements is recognized as revenue in the government-wide financial statements. 485,246

Deferred loss on refunding 346,095

Certain other long-term assets and liabilities are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

Net pension liability	(7,183,284)
Total OPEB liability	(1,525,363)
Deferred outflows and inflows of resources related to the net pension liability	(60,993)
Deferred outflows and inflows of resources related to the total OPEB liability	102,944

Net Position of Governmental Activities in the Statement of Net Position \$ 78,655,432

See notes to the financial statements.

CITY OF FRIENDSWOOD, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

	General Fund	Bond Construction	Total Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 14,487,465	\$ -	\$ 3,177,173	\$ 17,664,638
Sales taxes	6,395,814	-	1,569,848	7,965,662
Franchise fees and other	1,617,121	-	-	1,617,121
Fines and forfeitures	669,847	-	287,824	957,671
Permits and fees	1,518,956	-	47,700	1,566,656
Intergovernmental	4,398,836	-	-	4,398,836
Investment earnings	166,817	114,567	32,409	313,793
Donations	162,324	-	233,686	396,010
Miscellaneous	181,017	-	-	181,017
Total Revenues	<u>29,598,197</u>	<u>114,567</u>	<u>5,348,640</u>	<u>35,061,404</u>
Expenditures				
Current:				
General government	5,428,291	-	12,597	5,440,888
Public safety	16,642,647	-	226,284	16,868,931
Public works	2,157,277	-	-	2,157,277
Community development	985,309	-	-	985,309
Parks and recreation	3,505,652	-	5,494	3,511,146
Library services	1,200,512	-	-	1,200,512
Debt service:				
Principal	-	-	2,137,284	2,137,284
Interest and other charges	-	-	1,145,400	1,145,400
Capital outlay	<u>1,511,693</u>	<u>951,509</u>	<u>152,336</u>	<u>2,615,538</u>
Total Expenditures	<u>31,431,381</u>	<u>951,509</u>	<u>3,679,395</u>	<u>36,062,285</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,833,184)</u>	<u>(836,942)</u>	<u>1,669,245</u>	<u>(1,000,881)</u>
Other Financing Sources (Uses)				
Insurance recoveries	725,304	-	-	725,304
Transfers in	1,402,989	-	-	1,402,989
Transfers out	(47,000)	-	-	(47,000)
Sale of capital assets	9,135	-	-	9,135
Issuance of capital lease	485,305	-	-	485,305
Total Other Financing Sources (Uses)	<u>2,575,733</u>	<u>-</u>	<u>-</u>	<u>2,575,733</u>
Net change in fund balances	742,549	(836,942)	1,669,245	1,574,852
Fund balances - beginning	<u>13,542,757</u>	<u>6,652,899</u>	<u>1,843,829</u>	<u>22,039,485</u>
Fund balances - ending	<u>\$ 14,285,306</u>	<u>\$ 5,815,957</u>	<u>\$ 3,513,074</u>	<u>\$ 23,614,337</u>

See notes to the financial statements.

CITY OF FRIENDSWOOD, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2018

Net change in fund balances - total governmental funds: \$ 1,574,852

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital outlay	2,615,538
Depreciation expense	(6,278,935)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.

Unavailable property tax revenue	(800,249)
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Governmental funds report proceeds from long-term debt as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of long-term debt principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Debt service principal	2,137,284
Proceeds from capital leases	(485,305)

Contributions are treated as expenditures in the fund based financial statements, but are treated as reductions in the City's net pension/OBEB liability in the statement of net position. This amount is the difference between contributions and net pension/OPEB expense (revenue) for the current fiscal year.

Pension	(30,183)
OPEB	(94,497)

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

(Increase) decrease in accrued interest	6,827
(Increase) decrease in compensated absences	(46,487)
Amortization of deferred loss on refunding	(42,085)
Amortization of premium on bonds	227,149

Internal service fund is used by management to charge the cost of fleet management to individual funds. The change in net position of the internal service fund is included in the governmental activities in the statement of activities.

553,890

Change in net position of governmental activities

\$ (662,201)

See notes to the financial statements.

CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2018

	Business-Type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service
Assets		
Current assets		
Cash and cash equivalents	\$ 2,955,578	\$ 164,580
Investments	7,400,440	412,212
Accounts receivable, net of allowance:		
Customer accounts	2,363,623	-
Accrued interest	15,774	796
Prepays and other assets	41,159	-
Restricted cash equivalents	3,392,508	-
Total current assets	16,169,082	577,588
Non-current assets		
Working capital deposit	389,080	-
Capital assets:		
Land	319,473	-
Construction in progress	6,174,252	-
Water rights	19,716,695	-
Buildings and improvements	683,906	-
Machinery and equipment	7,218,247	3,252,017
Water and sewer systems	63,640,402	-
Accumulated depreciation	(36,900,928)	(2,216,476)
Total non-current assets	60,852,047	1,035,541
Total Assets	77,410,209	1,613,129
Deferred Outflows of Resources		
Deferred outflows - pension related	224,761	-
Deferred outflows - OPEB related	15,303	-
Deferred loss on bond refunding	891,729	-
Total Deferred Outflows of Resources	1,131,793	-
Total Assets and Deferred Outflows of Resources	78,542,002	1,613,129

CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF NET POSITION (continued)
PROPRIETARY FUNDS
September 30, 2018

	Business-Type Activities Enterprise Fund Water and Sewer	Governmental Activities Internal Service
Liabilities		
Current Liabilities		
Accounts payable	545,075	41,111
Accrued liabilities	56,586	-
Accrued interest	95,183	-
Customer deposits	513,286	-
Retainage payable	2,528	-
Compensated absences	16,650	-
Bonds and other long-term debt payable	2,215,000	-
Total Current Liabilities	3,444,308	41,111
Non-current Liabilities		
Compensated absences	66,600	-
Net Pension liability	788,885	-
Total OPEB liability	230,235	-
Bonds and other long-term debt payable	32,440,493	-
Total Non-current Liabilities	33,526,213	-
Total Liabilities	36,970,521	41,111
Deferred Inflows of Resources		
Deferred gain on issuance of refunding bonds	39,420	-
Deferred inflows of resources for pensions	240,873	-
Total Deferred Inflows of Resources	280,293	-
Total Liabilities and Deferred Inflows of Resources	37,250,814	41,111
Net Position		
Net investment in capital assets	27,088,280	1,035,541
Restricted for capital projects	175,135	-
Restricted for debt service	407,562	-
Unrestricted	13,620,211	536,477
Total Net Position	\$ 41,291,188	\$ 1,572,018

See notes to the financial statements.

CITY OF FRIENDSWOOD, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

For the Year Ended September 30, 2018

	Business-Type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service
Operating Revenues		
Charges for services	\$ 12,086,801	\$ 380,684
Miscellaneous	96,910	277,013
Total Operating Revenues	<u>12,183,711</u>	<u>657,697</u>
Operating Expenses		
Personnel services	2,156,316	-
Sewer operations	1,653,459	-
Water purchases	1,554,202	-
Repairs and maintenance	798,427	-
Supplies	128,801	-
Other services and charges	914,088	-
Depreciation	1,813,904	294,029
Total Operating Expenses	<u>9,019,197</u>	<u>294,029</u>
Operating income	<u>3,164,514</u>	<u>363,668</u>
Non-Operating Revenues (Expenses)		
Investment income	200,449	7,675
(Loss) on disposal of capital assets	-	(16,313)
Interest expense	(1,029,715)	-
Total Non-Operating Revenues (Expenses)	<u>(829,266)</u>	<u>(8,638)</u>
Income before transfers	2,335,248	355,030
Transfers in	-	198,860
Transfers out	(1,554,849)	-
Change in net position	780,399	553,890
Total Net Position - beginning as originally reported	40,150,896	1,204,211
Change in accounting principles	359,893	(186,083)
Net position - beginning	<u>40,510,789</u>	<u>1,018,128</u>
Total Net Position - ending	<u>\$ 41,291,188</u>	<u>\$ 1,572,018</u>

See notes to the financial statements.

CITY OF FRIENDSWOOD, TEXAS
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2018

	Business-Type Activities Enterprise Fund Water and Sewer	Governmental Activities Internal Service
Cash flows from operating activities		
Cash received from customers	\$ 12,343,579	\$ 657,697
Receipts from interfund charges for fleet management		
Cash payments to suppliers for goods and services	(5,573,622)	41,111
Cash payments to employees for services	(2,333,755)	-
Net cash provided (used) by operating activities	<u>4,436,202</u>	<u>698,808</u>
Cash flows from noncapital financing activities		
Transfer in from other funds	-	198,860
Transfers out to other funds	(1,554,849)	-
Net cash provided (used) by noncapital financing activities	<u>(1,554,849)</u>	<u>198,860</u>
Cash flows from capital and related financing activities		
Acquisition and construction of property, plant and equipment	(1,213,652)	(510,263)
Repayment of debt	(2,376,369)	-
Interest paid on debt	(1,034,399)	-
Net cash provided (used) by capital and related financing activities	<u>(4,624,420)</u>	<u>(510,263)</u>
Cash flows from investing activities		
Purchase of investments	(1,723,348)	(412,212)
Investment income	200,786	6,879
Net cash provided (used) by investing activities	<u>(1,522,562)</u>	<u>(405,333)</u>
Net increase (decrease) in cash and cash equivalents	(3,265,629)	(17,928)
Cash and cash equivalents, beginning	<u>9,613,715</u>	<u>182,508</u>
Cash and cash equivalents, ending	<u>\$ 6,348,086</u>	<u>\$ 164,580</u>
Reconciliation of Total Cash and cash equivalents		
Current assets - cash and cash equivalents	\$ 2,955,578	\$ 164,580
Restricted assets - cash and cash equivalents	3,392,508	-
	<u>\$ 6,348,086</u>	<u>\$ 164,580</u>

See notes to the financial statements.

CITY OF FRIENDSWOOD, TEXAS
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2018

	Business-type Activities - Enterprise Funds	Governmental Activities
	<u>Water and Sewer</u>	<u>Internal Service</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 3,164,514	\$ 363,668
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	1,813,904	294,029
Change in assets, deferred inflows and outflows, and liabilities:		
Decrease (increase) in customer receivable	6,496	-
Decrease (increase) in prepaids and other assets	1,436	-
Decrease (increase) in deferred outflow for pensions	268,163	-
Decrease (increase) in deferred outflow for OPEB	(15,303)	-
Increase (decrease) in accounts payable	(723,529)	41,111
Increase (decrease) in other liabilities	(55,412)	-
Increase (decrease) in customer deposits	6,895	-
Increase (decrease) in deferred inflows for pensions	146,477	-
Increase (decrease) in total OPEB liability	230,235	-
Increase (decrease) in net pension liability	(411,210)	-
Increase (decrease) in compensated absences	3,536	-
Total adjustments	<u>1,271,688</u>	<u>335,140</u>
Net cash provided (used) by operating activities	<u>\$ 4,436,202</u>	<u>\$ 698,808</u>

See notes to the financial statements.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2018

Note 1. Summary of Significant Accounting Policies

The City of Friendswood, Texas (“the City”) was incorporated on October 15, 1960. The City charter provides for a City County-City manager form of government. The Mayor and six Council members are elected from the City at large serving three-year terms. The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for law enforcement, appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget. The Mayor resides at meetings of the City Council and can vote. The City provides the following services: public safety, streets, parks and recreation, library, water and sewer, sanitation, planning and zoning, building inspection, code enforcement, and general administrative services.

A. Reporting Entity

The City is an independent political subdivision of the State of Texas governed by an elected six- member Council and Mayor and is considered a primary government. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. Based on these considerations, the West Ranch Management District and Friendswood Downtown Economic Development Corporation have been included in the City’s reporting entity as discretely presented component units. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Consideration regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity is based on criteria prescribed by general accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is financial independent of other state and local governments. Additional prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The West Ranch Management District (“the District”), a discretely presented component unit, was created under Section 59, Article XVI of the Texas Constitution added by an Act of the 79th Legislature of the State of Texas, effective June 17, 2005, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 3837, Texas Special District Local Laws Code, Chapters 49 and 54 of the Texas Water Code and Chapter 375 of the Texas Local Government Code, and is subject to the continuing supervision of the Texas Commission on Environmental Quality. The District was created to promote and encourage employment and the public welfare within the District. The affairs of the District are managed by a Board of Directors composed of persons appointed by the City Council. The City is financially accountable for the District because City Council must approve any debt issuances. Complete financial statements from the component may be obtained at the District’s administrative office.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

The Friendswood Downtown Economic Development Corporation (“FDEDC”) was incorporated August 1, 2016 as a nonprofit economic development corporation under the Development Corporation Act. The citizens of Friendswood voted to pass a one-half cent sales tax dedicated to support and enhance the welfare and prosperity of the citizens of the City and of this State by promotion of economic development and growth by encouraging the development of new business enterprises and the retention or expansion of existing business enterprises. To serve this purpose, the Corporation shall have the authority and power of a Type B corporation to undertake projects as described in Subchapter C of Chapter 501 of the Local Government Code and Chapter 505 of the Local Government Code, including undertaking projects as authorized by law, including but not limited to projects to promote new or expanded business enterprises in the downtown area as defined by the City of Friendswood Downtown District Map, including but not limited to streets, targeted infrastructure, paved sidewalks, pedestrian amenities including lighting, benches, signage, and other related public improvements, and the maintenance and operations expenses for any of the above-described projects. A separate governing board oversees FDEDC, which is appointed by Friendswood City Council, and consists of members of City Council, City’s management, and individuals from the community. The City can remove appointed board members and approves the FDEDC’s budget. The FDEDC is reported as a discretely presented component unit because the governing body is not identical to the governing body of the City, the FDEDC does not solely serve the City, and the City has the ability to impose its will on FDEDC. Complete financial statements of the FDEDC may be obtained by contacting FDEDC’s administration office.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the primary government and its component unit. 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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary governmental is reported separately from certain legally separate component units for which the primary government is financial accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes 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 operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Summary of Significant Accounting Policies (continued)

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considered revenue to be available if 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 judgements, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and, accordingly, have been recognized as revenue of the current fiscal period. All of revenue items are considered to be measureable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The **Bond Construction Fund** is used to account for the construction of public facilities, and park, street and drainage improvements that are funded by the proceeds from Permanent Improvement Bonds.

Other governmental funds is a summarization of all the non-major governmental funds.

The City reports the following major enterprise fund:

The **Water and Sewer Fund** is used to account for the activities of the City's water and wastewater operations.

Additionally, the City reports the following fund type:

The **Internal Service Fund** is used to account for fleet management services provided to other departments of the City on a cost reimbursement basis.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund and of the City's internal service fund are charges to customers for sales and services. Operating expenses for the enterprise fund and internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance

Cash and Investments

Cash and investments include cash on hand, deposits with financial institutions, short-term investments in a state-managed public funds investment pool account (TexPool), and a privately managed public funds investment pool (Texas Class). Other investments consist mainly of U.S. government treasury bills, treasury notes and other U.S. government obligations. Restricted cash and investments are assets restricted for specific use. Restricted includes cash deposits with financial institutions and investment pools.

The City maintains a pooled cash and investments account for all funds of the City. Each fund's positive equity in the pooled cash account is presented as "cash and investments" in the financial statements. Negative equity balances are reclassified and are reflected as interfund accounts payable. Interest income and interest expense are allocated monthly to each respective individual fund based on their representative fund balances.

The City's 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.

Investments for the City are reported at fair value, except for the position in investment pools. The City's investment in pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

TexPool and Texas Class have a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

Property Taxes

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Management estimates an allowance for trade accounts receivable based on past experience, historical losses, and other pertinent factors.

The City's property taxes are levied annually in October on the basis of the Appraisal District's assessed values as of January 1 of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value less exemptions. The City's property taxes are billed and collected by Galveston County. Such taxes are applicable to the fiscal year in which they are levied and become delinquent with an enforceable lien on property on February 1 of the subsequent calendar year.

Property taxes are prorated between operations and debt service based on rates adopted for the year of the levy. For the current year, the City levied property taxes of \$0.52735 per \$100 of assessed valuation that were prorated between operations and debt service in the amounts of \$0.43235 and \$0.09500, respectively. The resulting tax levies were approximately \$14.5 and \$3.2 million for operations and debt service, respectively, based on a total taxable valuation of approximately \$3.5 billion for the 2017 tax year.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance (continued)

Property Taxes (continued)

West Ranch Management District bond resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended August 31, 2018, the District levied an ad valorem debt service tax at the rate of \$0.0800 per \$100 of assessed valuation, which resulted in tax levy of \$365,889 on the taxable valuation of approximately \$457.4 million for the 2017 tax year.

Interfund Receivables/Payables

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

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The City applies the consumption method in accounting for prepaid items in the governmental funds.

Restricted Assets

Certain proceeds of the City’s enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Contract with West Ranch Management District

The District approved a contract with the City effective August 15, 2005, as amended. Under the terms of the contract, the District is to pay for construction of water distribution, sanitary sewer, drainage, transportation, education and recreation facilities to serve the District.

The District shall be the owner of the system until the system is completed, approved by the City and conveyed to it, at which time ownership will vest in the City. The District will own and operate these facilities to serve the District. Pursuant to the contract, the District shall have a security interest therein until all bonds issued by the District are retired.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure, and water rights, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance (continued)

Capital Assets (continued)

an estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date. The City's water rights have an indefinite life.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The City's property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Machinery and equipment	5 - 10 years
Infrastructure	40-50 years
Water and sewer system	40-50 years

The West Ranch Management District's capital assets are depreciated using the straight-line method over estimated useful lives of 10 to 45 years.

Compensated Absences

The City's employees earn vacation and sick leave, which may either be taken or accumulated, up to certain amounts, until paid upon resignation or retirement. All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Debt

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance cost are expenses in the period incurred.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance (continued)

Deferred Outflows/Inflows of Resources (continued)

- Deferred loss on refunding debt – A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred outflows of resources for pension - Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the City's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees five year period.
- Deferred outflows of resources for other post-employment benefits (OPEB) - Reported in the government wide financial statement of net position, these deferred outflows result from OPEB plan contributions made after the measurement date of the total OPEB liability and the results of changes in assumptions and other inputs. The deferred outflows of resources resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the next fiscal year. The other OPEB related outflow will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with OPEB benefits.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or balance sheet that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension - Reported in the government wide financial statement of net position, these deferred inflows result primarily from changes in actuarial assumptions. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.
- Deferred inflows of resources for gain on issuance of refunding bonds - Reported in the government wide financial statement of net position, these deferred inflows result primarily from differences from the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance (continued)

Pension

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in 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 that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB)

The City provides its retirees the opportunity to maintain health insurance coverage by participating in the City's insurance plan. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. The actual cost recorded in the governmental fund financial statements is the cost of the health benefits incurred on behalf of the retirees less the premiums collected from the retirees. Information regarding the City's total liability for this plan is obtained through a report prepared by Gabriel Roeder Smith & Company, the City's third-party actuary, in compliance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Additionally, the City participates in a defined-benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Statement No. 75.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Non-spendable – includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes prepaid items, note receivable and the fund balance of the City's permanent fund.

Restricted – includes fund balance amounts that are constrained for specific purposes which are imposed by providers, such as creditors or amounts restricted due to constitutional provision or enabling legislation. This classification includes retirement of long-term debt, construction programs, City ordinances, and other federal and state grants.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action in an open meeting of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passes by the City Council.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance (continued)

Fund Balance (continue)

Assigned – includes fund balance amounts that are self-imposed by the City to be used for particular purpose. Fund balance can be assigned by the City Council or the City Manager, pursuant to the City’s fund balance policy. At September 30, 2018, the City’s assigned fund balance included amounts assigned for encumbrances.

Unassigned – includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted fund balances are available for use, it is the City’s policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications are available.

The City has established a minimum fund balance policy whereby the City’s unassigned general fund balance will be maintained at levels sufficient to protect the City’s creditworthiness, as well as its financial position, from unforeseeable emergencies. The City will strive to maintain the unassigned general fund balance at a minimum of 90 days of prior year audited operating expenditures.

Net Position

Government-Wide Financial Statements:

The Statement of Net Position includes the following categories of net position:

Net investment in capital assets – the component unit of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, net of premiums and discounts, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted – Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Unrestricted – the difference between assets, deferred outflows and inflows, and liabilities that are not reported in any of the classifications above.

Use of Estimates

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

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1. Summary of Significant Accounting Policies (continued)

E. Implementation of New Accounting Standards

In the current fiscal year, the City implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

GASB Statement No. 85, *Omnibus 2017*. This Statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources—that is, resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the purpose of extinguishing debt. This Statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, this Statement establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired.

The following standards have been issued, but have not been implemented as not yet effective.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations.

GASB Statement No. 84, *Fiduciary Activities*. This Statement establishes standards of accounting and financial reporting for fiduciary activities.

GASB Statement No. 87, *Leases*. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2. Cash and Investments

Under provisions of state and local statutes, the City’s investment policies, and provisions of the City’s depository contracts with an area financial institution, the City is authorized to place available deposits and investments in the following:

1. Obligations of the U.S., it’s agencies and instrumentalities;
2. Certificates of Deposit issued by state and national banks or savings or loan associations domiciled in this state that are guaranteed or incurred by the Federal Deposit Insurance Corporation or collateralized in accordance with Section 2256.010, the Texas Government Code, in face amounts not to exceed \$100,000;
3. No-load money market mutual funds; and
4. TexPool, Lone State Investment Pool and Texas CLASS.

The City Council has adopted a written investment policy regarding the investments of its funds as defined by the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the Council’s investment policies. The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments were complied with during the year.

At September 30, 2018, the carrying amount of the City and Friendswood Economic Development Corporation’s deposits was \$7,842,503 and the bank balance of \$8,269,655.

As of September 30, 2018, the City and Friendswood Economic Development Corporation held the following investments.

	Reported Value of Investments	Weighted Average Maturity (Days)
Investment pools:		
TexPool	\$ 2,518,040	32
Texas CLASS	15,740,033	66
Total investment pools	<u>18,258,073</u>	
Debt Securities:		
Federal Farm Credit Bonds	1,992,148	123
Federal Home Loan Bank Bonds	1,988,649	257
Federal Home Loan Mortgage Corporation	3,475,549	193
Federal National Mortgage Association	3,460,313	322
Total debt securities	<u>10,916,659</u>	
Total investments	<u>\$ 29,174,732</u>	

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2. Cash and Investments (continued)

The City has the following recurring fair value measurements as of September 30, 2018:

	Fair Value / Amortized Cost	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investment Securities:				
Federal Farm Credit Bank	\$ 1,992,148	\$ -	\$ 1,992,148	\$ -
Federal Home Loan Bank	1,988,649	-	1,988,649	-
Federal Home Loan Mortgage Corp.	3,475,549	-	3,475,549	-
Federal National Mortgage Assoc.	3,460,313	-	3,460,313	-
Total Investment Securities	\$ 10,916,659	\$ -	\$ 10,916,659	\$ -

The City invests in Texas Local Government Investment Pool (TexPool), which was created under the Interlocal Cooperation Act, Texas Government Code Ann. Chapter 791 and the Texas Public Funds Investment Act. The Texas Treasury Safekeeping Trust Company (“the Trust”) is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is sole officer, director and shareholder. The advisory board of TexPool is composed of members appointed pursuant to the requirements of the Texas Public Funds Investment Act.

The City invests in Texas CLASS Investment Pool which was established in 1996 pursuant to the Texas Public Funds Investment Act. The pool is governed by a 7-member board of trustees, who are elected by pool participants. The Cutwater Investor Services Corp. serves as the pools program administrator and Wells Fargo Bank Texas, NA, serves as custodian.

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2018, all of the City’s cash deposits with financial institutions were collateralized with securities held by the pledging financial institution in the City’s name.

Credit Risk

Credit Risk. It is the City’s policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City’s investments as of September 30, 2018, were rated as follows:

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2. Cash and Investments (continued)

Credit Risk (continued)

Investment Type:	Credit Quality	
	Rating	Rating Agency
Investment Pools:		
Texas CLASS	AAAm	Standard & Poor's
TexPool	AAAm	Standard & Poor's
Debt Securities:		
Federal Home Loan Mortgage Corp.	Aaa	Moody's Investor Service
Federal Home Loan Bank	Aaa	Moody's Investor Service
Federal Farm Credit Bank	Aaa	Moody's Investor Service
Federal National Mortgage Association	Aaa	Moody's Investor Service

Note 3. Receivables and Deferred Inflows of Resources

Receivables as of September 30, 2018 for the City's individual major funds and nonmajor funds in the aggregate and the Internal Service Fund including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds		Proprietary	Total
	General	Nonmajor	Water and Sewer	
Receivables:				
Property taxes	\$ 230,993	\$ 38,830	\$ -	\$ 269,823
Penalties and interest	138,251	20,535	-	158,786
Sales tax	1,163,713	287,429	-	1,451,142
Franchise taxes	390,992	-	-	390,992
Customer accounts	242,287	3,451	2,642,782	2,888,520
Court fines	1,619,640	-	-	1,619,640
Other	59,224	3,573	-	62,797
Gross receivables	3,845,100	353,818	2,642,782	6,841,700
Less: allowance for uncollectibles	(1,463,605)	(20,144)	(279,159)	(1,762,908)
Net total receivables	\$ 2,381,495	\$ 333,674	\$ 2,363,623	\$ 5,078,792

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 3. Receivables and Deferred Inflows of Resources (continued)

Governmental funds reported deferred inflows of resources in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows of resources for unavailable revenues reported in the governmental funds were as follows:

	Deferred Inflows of Resources
General Fund:	
Delinquent property taxes	\$ 22,298
Property tax penalties and interest	93,053
Court fines	323,928
Grants	16,210
Miscellaneous	7,945
Total General Fund	<u>463,434</u>
Nonmajor funds:	
Delinquent property taxes	4,239
Property tax penalties and interest	13,821
Court fines	3,752
Total nonmajor funds	<u>21,812</u>
Total governmental funds	<u>\$ 485,246</u>

On June 1, 2015, The City Council approved the purchase of a fire truck for the Friendswood Volunteer Fire Department for \$483,364. This purchase is supported with a repayment agreement whereby the Friendswood Volunteer Fire Department has agreed to repay the City \$72,000 per year for the first six years, with a final payment of \$65,000. The City set an initial interest rate of 1% with an option to increase should interest rates rise significantly. The balance of the note receivable at September 30, 2018 is \$223,662.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4. Capital Assets

Capital assets activity for the primary government for the fiscal year ended September 30, 2018, is as follows:

Governmental activities	Beginning Balance	Increases	Reclassification /Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 25,805,161	\$ 28,822	\$ (74,677)	\$ 25,759,306
Construction in progress	10,434,244	958,724	(8,878,416)	2,514,552
Total capital assets, not being depreciated	36,239,405	987,546	(8,953,093)	28,273,858
Capital assets, being depreciated:				
Buildings and improvements	55,471,627	-	(15,500,470)	39,971,157
Machinery and equipment	15,587,425	2,376,909	(4,097,609)	13,866,725
Infrastructure	68,751,444	-	23,582,600	92,334,044
Total capital assets, being depreciated	139,810,496	2,376,909	3,984,521	146,171,926
Less accumulated depreciation for:				
Buildings & improvements	(17,773,050)	(1,811,631)	2,897,278	(16,687,403)
Machinery and equipment	(11,454,941)	(1,244,075)	3,665,271	(9,033,745)
Infrastructure	(44,676,115)	(3,517,259)	(2,480,129)	(50,673,503)
Total accumulated depreciation	(73,904,106)	(6,572,965)	4,082,420	(76,394,651)
Total capital assets - being depreciated	65,906,390	(4,196,056)	8,066,941	69,777,275
Governmental capital assets, net	\$ 102,145,795	\$ (3,208,510)	\$ (886,152)	\$ 98,051,133

Business-type activities	Beginning Balance	Increases	Reclassification /Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 319,473	\$ -	\$ -	\$ 319,473
Water rights	19,716,695	-	-	19,716,695
Construction in progress	11,432,753	856,135	(6,114,636)	6,174,252
Total capital assets, not being depreciated	31,468,921	856,135	(6,114,636)	26,210,420
Capital assets, being depreciated:				
Buildings and improvements	589,624	-	94,282	683,906
Machinery and equipment	1,213,530	-	6,004,717	7,218,247
Water and sewer system	63,267,248	-	373,154	63,640,402
Total capital assets, being depreciated	65,070,402	-	6,472,153	71,542,555
Less accumulated depreciation for:				
Buildings and improvements	(253,943)	(19,757)	(12,329)	(286,029)
Machinery and equipment	(956,742)	(292,570)	(3,230,449)	(4,479,761)
Water and sewer system	(33,940,650)	(1,501,577)	3,307,089	(32,135,138)
Total accumulated depreciation	(35,151,335)	(1,813,904)	64,311	(36,900,928)
Total capital assets - being depreciated	29,919,067	(1,813,904)	6,536,464	34,641,627
Business-type capital assets, net	\$ 61,387,988	\$ (957,769)	\$ 421,828	\$ 60,852,047

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4. Capital Assets (continued)

Capital assets activity for the discretely presented component units is as follows:

Component Unit	Beginning Balance	Increases	Reclassification /Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 6,821,433	\$ 17,602	\$ -	\$ 6,839,035
Total capital assets, not being depreciated	6,821,433	17,602	-	6,839,035
Capital assets, being depreciated:				
Water production and distribution facilities	483,467	-	-	483,467
Total capital assets, being depreciated	483,467	-	-	483,467
Less accumulated depreciation for:				
Water production and distribution facilities	(73,556)	(10,745)	-	(84,301)
Total accumulated depreciation	(73,556)	(10,745)	-	(84,301)
Total capital assets - being depreciated	409,911	(10,745)	-	399,166
Component Unit capital assets, net	\$ 7,231,344	\$ 6,857	\$ -	\$ 7,238,201

Depreciation

Depreciation expense was charged to functions/programs of the City as follows:

	Depreciation Expense
Primary government	
Governmental activities:	
General government	\$ 260,219
Public safety	895,341
Public Works	4,078,138
Community services	1,045,238
Capital assets held by the City's internal service fund are charged to the various functions based on their usage	294,029
Total Governmental activities	6,572,965
Business-type activities:	
Water and sewer	1,813,904
Total Business-type activities:	1,813,904
Total primary government	\$ 8,386,869

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4. Capital Assets (continued)

Construction commitments

The City has active construction projects as of September 30, 2018. At year end, the City's commitments with contractors were as follows:

Projects	Construction Commitment	Construction in Progress	Remaining Commitment
Governmental funds:			
Parks Maintenance Building	\$ 8,305	\$ 5,403	\$ 2,902
Blackhawk Boulevard Phase II	5,100,525	1,239,938	3,860,587
Old City Park Restrooms & Pavilion	33,500	24,218	9,282
Stevenson Park Pool Restrooms	3,931	3,931	-
Old City Park Parking Lot	402,075	95,498	306,577
Improvements Other Park (Renwick)	477,356	477,356	-
Brittany Bay (aka Friendswood Lakes Blvd)	654,358	654,358	-
Old City Pary Survey	13,850	13,850	-
	6,693,900	2,514,552	4,179,348
Enterprise funds:			
Blackhawk Boulevard Phase II	425,973	50,565	375,408
Lift Stations #23 - Crazy Horse	217,160	138,867	78,293
Blackhawk WWTP 3rd Clarifier	5,886,950	5,886,950	-
43" Southeast Transmission Water Line Phase 1	97,870	97,870	-
	6,627,953	6,174,252	453,701
Total Commitments	\$ 13,321,853	\$ 8,688,804	\$ 4,633,049

The remaining commitment amounts were encumbered at year end. The encumbrances and related appropriation lapse at the end of the fiscal year, but they are re-appropriated and become a part of the subsequent year's budget because performance under the executory contract is expected in the next year.

Note 5. Long-term Debt

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for governmental and business-type activities. These instruments include general obligation bonds, certificates of obligation, revenue bonds, and capital leases. These debt obligations are secured by either future tax revenue, water and sewer system revenue, or liens on property and equipment. Debt obligations that are intended to be repaid from water and sewer system revenue have been recorded as business-type activities. All other long-term obligations of the City are considered to be governmental type activities.

Federal Arbitrage

General obligation bonds, combination tax and revenue bonds, and certificates of obligation are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage and interest income tax regulations under those provisions.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5. Long-term Debt (continued)

Bonds Payable and Certificates of Obligation

The following schedule summarizes the terms of the City’s general obligation bonds, combination tax and revenue bonds, and certificates of obligation outstanding and their corresponding allocations to the governmental and business-type activities at September 30, 2018:

General Obligation Bonds:	Original Issue Amount	Final Maturity	Interest Rates	Governmental Activities	Business-Type Activities
2010A Permanent Improvement	\$ 3,460,000	2035	1.0 - 4.75%	\$ 2,610,000	\$ -
2010B Permanent Improvement and Refunding	5,460,000	2021	1.0 - 4.0%	-	1,810,000
2012 General Obligation Refunding	8,890,000	2026	2.0 - 3.5%	5,865,000	-
2014 General Obligation Refunding	8,805,000	2028	2.0% - 4.0%	2,220,000	5,805,000
2015 General Obligation Refunding	9,595,000	2030	2.0% - 3.0%	8,325,000	-
2016 General Obligation Permanent Improvement and Refunding	19,095,000	2031	2.0% - 5.0%	7,120,000	9,850,000
2016A General Obligation Refunding	9,765,000	2034	2.0% - 4.0%	-	8,960,000
2017 General Obligation Bonds	5,605,000	2031	2.0% - 4.0%	5,405,000	-
Total general obligation bonds				31,545,000	26,425,000
Revenue Bonds:					
2016 Waterworks and Sewer System	5,735,000	2036	2.0% - 4.0%	-	5,290,000
Total				\$ 31,545,000	\$ 31,715,000

Annual debt service requirements for the City’s bonds and certificates of obligation are as follows:

Fiscal Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2019	\$ 1,815,000	\$ 1,083,831	\$ 2,215,000	\$ 1,112,250	\$ 6,226,081
2020	1,855,000	1,042,281	2,275,000	1,053,500	6,225,781
2021	1,995,000	991,231	2,335,000	992,850	6,314,081
2022	2,150,000	927,606	1,905,000	935,225	5,917,831
2023	2,215,000	860,319	1,960,000	880,475	5,915,794
2024-2028	12,255,000	3,118,854	10,930,000	3,262,575	29,566,429
2029-2033	8,890,000	728,132	8,235,000	1,014,275	18,867,407
2034-2038	370,000	17,813	1,860,000	82,200	2,330,013
	\$ 31,545,000	\$ 8,770,067	\$ 31,715,000	\$ 9,333,350	\$ 81,363,417

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5. Long-term Debt (continued)

Bonds Payable and Certificates of Obligation (continued)

Changes in the City's long-term liability activity for the year ended September 30, 2018, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental activities:					
General obligation bonds	\$ 33,320,000	\$ -	\$ (1,775,000)	\$ 31,545,000	\$ 1,815,000
Premium on bond issuance	2,747,806	-	(227,149)	2,520,657	-
Capital lease	668,284	485,305	(362,284)	791,305	377,091
Compensated absences	719,242	819,451	(772,964)	765,729	153,146
Governmental activity					
Long-term liabilities	\$ 37,455,332	\$ 1,304,756	\$ (3,137,397)	\$ 35,622,691	\$ 2,345,237
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Revenue bonds	\$ 5,515,000	\$ -	\$ (225,000)	5,290,000	\$ 230,000
General obligation bonds	28,360,000	-	(1,935,000)	26,425,000	1,985,000
Premium on bond issuance	3,156,862	-	(216,369)	2,940,493	-
Compensated absences	65,571	97,183	(79,504)	83,250	16,650
Business-type activity					
Long-term liabilities	\$ 37,097,433	\$ 97,183	\$ (2,455,873)	\$ 34,738,743	\$ 2,231,650
Total Primary government	\$ 74,552,765	\$ 1,401,939	\$ (5,593,270)	\$ 70,361,434	\$ 4,576,887

The compensated absences, net pension liability and total OPEB liabilities attributable to the governmental activities will be liquidated primarily by the General Fund.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5. Long-term Debt (continued)

West Ranch Management District

The following schedule summarizes the terms of the West Ranch Management District’s general obligation bonds at July 31, 2018:

General Obligation Bonds:	Amounts Outstanding	Interest Rates	Range of Maturities	Callable Date *
Series 2010	\$ 6,055,000	3.25% - 5.25%	2018 - 2040	September 1, 2020
Road Series 2010A	1,630,000	3.50% - 5.00%	2018 - 2040	September 1, 2020
Series 2012A	3,110,000	3.50% - 4.10%	2027 - 2040	September 1, 2020
Road Series 2013	1,030,000	2.00% - 3.00%	2018 - 2028	September 1, 2021
Series 2013	1,195,000	3.00% - 5.00%	2018 - 2040	September 1, 2021
Road Series 2014	2,085,000	2.00% - 3.75%	2018 - 2040	September 1, 2022
Series 2015	5,315,000	1.30% - 4.125%	2018 - 2030	September 1, 2023
Series 2016	2,080,000	3.00% - 4.00%	2031 - 2040	September 1, 2024
Refunding Series 2016	1,135,000	2.00% - 4.00%	2018 - 2040	September 1, 2024
Total general obligation bonds	<u>\$ 23,635,000</u>			

* Or any date thereafter, callable at par plus accrued interest to the date of redemption.

Annual debt service requirements for the District’s bonds are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 800,000	\$ 928,016	\$ 1,728,016
2020	830,000	907,460	1,737,460
2021	850,000	883,383	1,733,383
2022	885,000	856,611	1,741,611
2023	910,000	827,740	1,737,740
2024-2028	5,105,000	3,605,920	8,710,920
2029-2033	5,260,000	2,498,752	7,758,752
2034-2038	5,260,000	1,412,682	6,672,682
2039-2041	3,735,000	252,789	3,987,789
	<u>\$ 23,635,000</u>	<u>\$ 12,173,353</u>	<u>\$ 35,808,353</u>

The District’s bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5. Long-term Debt (continued)

West Ranch Management District (continued)

Changes in the discretely presented component units' long-term liabilities for the year end July 31, 2018, are as follows:

West Ranch Management District	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Component Unit					
General obligation bonds	\$ 24,430,000	\$ -	\$ (795,000)	\$ 23,635,000	\$ 800,000
Discount on bonds	(430,464)	-	13,460	(417,004)	-
Premium on bonds	111,271	-	(8,357)	102,914	-
Developer advances	40,000	-	-	40,000	-
Due to developer	369,600	-	-	369,600	-
Total	\$ 24,520,407	\$ -	\$ (789,897)	\$ 23,730,510	\$ 800,000

A developer of the District has advanced \$40,000 to the District for operating expenses. The District has agreed to pay these amounts, plus interest, to the extent approved by the Commission from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities. The District is currently unable to estimate when bonds will be issued to pay this liability.

The developer of the District has constructed underground utilities on behalf of the District. The District's engineer estimates reimbursable costs for completed projects are \$369,600. The District has agreed to reimburse the developers for these amounts, plus interest, to the extent approved by the Texas Commission on Environmental Quality from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities.

Defeasance of Bonds

The City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On September 30, 2018, the City has no bonds considered defeased that were outstanding.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5. Long-term Debt (continued)

Capital Leases

The City has entered into capital lease agreements in order to purchase machinery and equipment for public works, police and fire departments. The assets acquired through these lease agreements are as follows:

<u>Asset</u>	<u>Governmental Activities</u>
Machinery and equipment	\$ 949,270
Less: accumulated depreciation	(138,849)
Total	<u>\$ 810,421</u>

The following is a summary of future lease payments due on this machinery and equipment:

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 377,091
2020	179,053
2021	179,053
2022	104,181
Minimum lease payments	839,378
Less amount representing interest	(48,073)
Total	<u>\$ 791,305</u>

Pledged Revenues

On February 1, 2016, the City issued \$5,735,000 in Waterworks and Sewer System Revenue Bonds, Series 2016. These bonds represent special obligations of the City and are payable solely from a first lien on and pledge of the net revenues of the City's waterworks and sanitary sewer system. The proceeds of the bonds were and are to be used to finance sanitary sewer and waterworks system extensions and improvements. The outstanding revenue bonds have a final maturity of March 1, 2036 and the City has commitment revenues each year the bonds are outstanding. At September 30, 2018, the remaining principal on the series 2016 bonds was \$5,290,000. Interest and principal payments for the fiscal year were \$179,650 and \$225,000, respectively. Net pledge revenue in 2018 produced 192 percent of the current debt service requirement.

Note 6. Interfund Balances and Transfers

Due to/from Other Funds

The City had no interfund receivable or payable balances at September 30, 2018.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6. Interfund Balances and Transfers (continued)

Interfund Transfers

The composition of interfund transfers for the year ended September 30, 2018, is as follows:

Transfer In	Transfer Out	Amount	Purpose
General Fund	Water and Sewer	\$ 1,402,989	Budgeted annual transfer for indirect water and sewer costs by the General Fund.
Vehicle Replacment Fund	General fund	47,000	Vehicle replacement due to Hurricane Harvey
Vehicle Replacment Fund	Water and Sewer	<u>151,860</u>	Vehicle replacement due to Hurricane Harvey
		<u>\$ 1,601,849</u>	

Note 7. Employee Retirement System

Texas Municipal Retirement System

Plan Description and Provisions

The City participates as one of 883 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 report (CAFR) that can be obtained at 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 actuarially equivalent 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 FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7. Employee Retirement System (continued)

The City has approved an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, City provides on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate:	7%
Matching ratio (City to employee):	2 to 1
Years required for vesting:	5
Service retirement eligibility:	Vested at age 60 or 20 years at any age
Updated Service Credit:	100% Repeating
Annuity increase to retirees	50% of CPI; Repeating
Supplement death benefit – active Employees and retirees	Yes

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	115
Inactive employees entitled to but not yet receiving benefits	109
Active employees	<u>210</u>
	<u>434</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the State law governing TMRS, the contribution rate for each City is determined annually by the consulting 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 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.47% and 15.95% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$2,288,842 and were equal to the required contributions.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7. Employee Retirement System (continued)

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Actuarial cost method:	Entry age normal
Amortization method:	Level percentage of payroll, closed
Remaining amortization period:	28 years
Asset valuation method:	10 year smoothed market; 15% soft corridor
Inflation:	2.5%
Salary increases:	3.5% to 10.5% including inflation
Investment rate of return:	6.75%

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 Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB 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, 2017 valuation were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The postretirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Assumptions are reviewed annually. No additional changes were made for the 2017 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.

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

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7. Employee Retirement System (continued)

Actuarial Assumptions (continued)

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 for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	<u>100.0%</u>	

Discount Rate

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

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7. Employee Retirement System (continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2016	\$ 70,456,301	\$ 58,455,358	\$ 12,000,943
Changes for the year:			
Service Cost	2,505,392	-	2,505,392
Interest (on the Total Pension Liability)	4,755,782	-	4,755,782
Difference between expected and actual experience	(60,180)	-	(60,180)
Benefit payments, including refunds of employee contributions	(2,505,921)	(2,505,921)	-
Contributions – employer	-	2,182,093	(2,182,093)
Contributions – employee	-	987,399	(987,399)
Net investment income	-	8,104,390	(8,104,390)
Administrative Expense	-	(41,987)	41,987
Other	-	(2,127)	2,127
Balance at 12/31/2017	<u>\$ 75,151,374</u>	<u>\$ 67,179,205</u>	<u>\$ 7,972,169</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability (asset) 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%)	Current Single Rate Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 18,607,900	\$ 7,972,169	\$ (744,106)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2018, the City recognized a pension expense of \$2,289,902.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7. Employee Retirement System (continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Difference in expected and actual economic experience	\$ 219,127	\$ 648,282
Changes in actuarial assumptions	341,012	-
Difference between projected and actual investment earnings	-	1,730,770
Contributions subsequent to the measurement date	<u>1,741,808</u>	<u>-</u>
 Total	 <u>\$ 2,301,947</u>	 <u>\$ 2,379,052</u>

\$1,741,808 reported as deferred outflows of resources related to pension 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

	Net deferred outflows (inflows) of resources
	<u> </u>
2019	\$ (82,253)
2020	(119,689)
2021	(774,289)
2022	<u>(842,682)</u>
Total	<u>\$ (1,818,913)</u>

Note 8. Post Employee Benefits Other Than Pensions

TMRS Supplemental Death Benefits Fund

Benefit Plan Description

The City’s single-employer defined benefit group-term life insurance plan is operated by the Texas Municipal Retirement System (TMRS) via 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.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8. Post Employee Benefits Other Than Pensions (continued)

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is another post-employment benefit (OPEB). As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

Membership in the plan as of the measurement date of December 31, 2017 was as follows:

Inactive employees currently receiving benefits	85
Inactive employees entitled to but not yet receiving benefits	31
Active employees	<u>210</u>
Total	<u>326</u>

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city (currently 0.21% of covered payroll). The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees’ entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both active employees and retirees and the assets are not segregated for these groups. Under GASB Statement No. 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.31% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2017. At transition, GASB Statement No.75 also requires that the total OPEB liability as of the prior fiscal year end be estimated based on the 20 Year Bond GO Index as of the prior fiscal year end. The actuary has estimated the total OPEB liability, as of December 31, 2016, using a discount rate of 3.78%.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8. Post Employee Benefits Other Than Pensions (continued)

TMRS Supplemental Death Benefits Fund (continued)

Actuarial Assumptions

The City's total OPEB liability was measured at December 31, 2017 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Valuation Date: December 31, 2017

Methods and Assumptions:

Inflation:	2.50%
Salary Increases:	3.50% to 10.50%, including inflation
Discount rate*:	3.31%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.
Retirees' share of benefit related costs:	\$0
Administrative expenses:	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates – disabled retirees:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

Note: The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8. Post Employee Benefits Other Than Pensions (continued)

TMRS Supplemental Death Benefits Fund (continued)

Changes in the Total OPEB Liability

Service cost	\$	26,788
Interest		20,384
Changes of benefit terms		-
Difference between expected and actual experience of the total OPEB liability		-
Changes of assumptions		49,777
Benefit payments		<u>(5,640)</u>
Net change in total OPEB liability		91,309
Total OPEB liability - beginning		<u>528,674</u>
Total OPEB liability - ending	\$	<u><u>619,983</u></u>

Ending total OPEB liability is as of December 31, 2017. Changes of assumptions reflect a change in the discount rate from 3.78% as of December 31, 2016 to 3.31% as of December 31, 2017.

Sensitivity Analysis

The following presents the total OPEB liability of the employer, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or 1 percentage point higher (4.31%) than the current rate. Note that the healthcare cost trend rate does not affect the total OPEB liability, so sensitivity to the healthcare cost trend rate is not shown.

1% Decrease to 2.31%	Current Discount Rate Assumption 3.31%	1% Increase to 4.31%
\$ 748,997	\$ 619,983	\$ 520,845

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Activity

For the year ended September 30, 2018, the City recognized OPEB expense of \$55,061.

As of September 30, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes assumptions	\$ 41,888	\$ -
Contributions subsequent to the measurement date	<u>4,426</u>	<u>-</u>
Total	<u><u>\$ 46,314</u></u>	<u><u>\$ -</u></u>

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8. Post Employee Benefits Other Than Pensions (continued)

TMRS Supplemental Death Benefits Fund (continued)

The \$4,426 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2019.

Amounts currently reported as deferred outflows of resources related to OPEB, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

<u>Fiscal Year</u>	<u>Net deferred outflows (inflows) of resources</u>
2019	\$ 7,889
2020	7,889
2021	7,889
2022	7,889
2023	7,889
Thereafter	2,443
Total	<u>\$ 41,888</u>

Retiree Health Care Plan (RHCP)

Plan Description

The City’s defined benefit OPEB plan, City of Friendswood Retiree Health Care Plan (RHCP), provides OPEB through an implicit healthcare premium for retirees for all permanent full-time employees of the City. RHCP is a single-employer defined benefit OPEB plan administered by the City. At this time, no assets are accumulated in a trust to fund the future requirements of the RHCP.

Benefits provided

RHCP provides access to post retirement employees by offering a “blended premium” structure, that is, the overall health care premiums for active employees and non-Medicare retirees, are stated in terms of a single “blended premium”. The difference between the underlying retiree claims and the blended overall health care premium is referred to as an “implicit” subsidy. Because the underlying claims costs for a non-Medicare retiree are on average higher than the blended premium, there is a positive implicit subsidy for the non-Medicare retirees.

Employees covered by benefit terms. At December 31, 2016, the following employees were covered by the benefit terms:

Retirees and beneficiaries	6
Inactive, nonretired members	0
Active members	<u>195</u>
Total	<u>201</u>

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8. Post Employee Benefits Other Than Pensions (continued)

Retiree Health Care Plan (RHCP) (continued)

Total OPEB Liability

The City's total OPEB liability of \$1,135,615 was measured as of December 31, 2017, and was determined by an actuarial valuation as of December 31, 2016.

Actuarial assumptions and methods

The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

<i>Valuation Date:</i>	December 31, 2016
<i>Methods and Assumptions:</i>	
Actuarial Cost Method:	Individual Entry-Age
Discount Rate:	3.31%
Inflation:	2.50%
Salary Increases:	3.50% to 10.50%, including inflation
Demographic Assumptions:	Based on the experience study covering the four year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS)
Mortality:	For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Health Care Trend Rates:	Initial rate of 7.50% declining to an ultimate rate of 4.25% after 15 years.
Participation Rates:	It was assumed 20% of employees retiring at age 50 or over would choose to receive retiree health care coverage.
<i>Other Information:</i>	
Notes:	The discount rate changed from 3.81% as of December 31, 2016 to 3.31% as of December 31, 2017.

Discount Rate

Because the RHCP is unfunded or pay-as-you go, the discount rate is based on 20-year tax-exempt AA or higher Municipal Bonds or 3.31% as of the measurement date of December 31, 2017 based on the 20 Year Bond GO Index published by bondbuyer.com.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8. Post Employee Benefits Other Than Pensions (continued)

Retiree Health Care Plan (RHCP) (continued)

Changes in the Total OPEB Liability

Service cost	\$	44,637
Interest		39,497
Changes of benefit terms		-
Difference between expected and actual experience of the total OPEB liability		4,573
Changes of assumptions		51,765
Benefit payments		(38,414)
Net change in total OPEB liability		<u>102,058</u>
Total OPEB liability - beginning		<u>1,033,557</u>
Total OPEB liability - ending	\$	<u><u>1,135,615</u></u>

Ending total OPEB liability is as of December 31, 2017. Changes of assumptions reflect a change in the discount rate from 3.81% as of December 31, 2016 to 3.31% as of December 31, 2017.

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

The following presents the plan's total OPEB liability, calculated using a discount rate of 3.31%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

<u>1% Decrease to 2.31%</u>	<u>Current Discount Rate Assumption 3.31%</u>	<u>1% Increase to 4.31%</u>
\$ 1,247,193	\$ 1,135,615	\$ 1,034,660

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate Assumption</u>	<u>1% Increase</u>
\$ 996,924	\$ 1,135,615	\$ 1,300,483

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8. Post Employee Benefits Other Than Pensions (continued)

Retiree Health Care Plan (RHCP) (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$89,932.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 4,102	\$ -
Changes assumptions	46,438	-
Contributions subsequent to the measurement date	21,393	-
Total	<u><u>\$ 71,933</u></u>	<u><u>\$ -</u></u>

The \$21,393 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2019.

Amounts currently reported as deferred outflows of resources related to OPEB, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

<u>Fiscal Year</u>	<u>Net deferred outflows (inflows) of resources</u>
2019	\$ 5,798
2020	5,798
2021	5,798
2022	5,798
2023	5,798
Thereafter	21,550
Total	<u><u>\$ 50,540</u></u>

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 9. Commitments and Contingencies

Southeast Water Purification Plant

The City has entered into a contract with the City of Houston for construction, operating and maintaining a water purification plant known as Southeast Water Purification Plant. The City's pro rata share of the actual pumping construction costs is 1.33 percent.

The City began receiving water from the plant on October 15, 1990. The City is billed on a monthly basis for the actual gallons of water received times the City's pro rata share of actual costs. At the end of each quarter, the City of Houston computes the total operation and maintenance expenses for the quarter just ended, recalculates the cost per one thousand gallons, and adjusts previous billings on the next invoice.

The relationship of the parties is of a fiduciary character, no partnership or joint venture is created by this contract.

Blackhawk Regional Wastewater Treatment Facility

On December 12, 1974, the City entered into an agreement with Gulf Coast Waste Disposal Authority to construct the Blackhawk Regional Wastewater Treatment Facility. The Blackhawk Wastewater Treatment Facility was constructed in the early 1980s and is a regional wastewater treatment plant serving MUD 55, Baybrook MUD 1, City of Houston and the City of Friendswood. The plant has a capacity of 9.25 million gallons per day (MGD) and is operated and maintained by Gulf Coast Waste Disposal Authority. Friendswood is the majority owner having 52.465% or 4.853 MGD of its capacity.

As a part of the contract with Gulf Coast Waste Disposal Authority, the City and all participants pay their share of operational costs and expenses (direct and indirect) incurred monthly at the Blackhawk Wastewater Treatment Facility based upon actual flows. This includes the maintenance of the plant and the creation and maintenance of reasonable reserves for repairs and other contingencies. Capital expenditures on the other hand shall be the responsibility of all participants based upon their purchased capacity in the plant. For Friendswood, that equates to 52.465% for capital projects identified and approved at the plant.

Federal and State Programs

The City recognizes grant monies received as reimbursement for costs incurred in certain federal and state programs it administers as revenue. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk Pool. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The participation of the City in TML is limited to payment of premiums. During the year ended September 30, 2018, the City paid premiums to TML for provision of various liability, property and casualty insurance. The City has various deductible amounts ranging from \$500 to \$5,000 on various policies.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 9. Commitments and Contingencies (continued)

The City also provides workers' compensation insurance on its employees through TML. Workers' compensation is subject to change when audited by TML. At year-end, September 30, 2018, the City believed the amounts paid on workers' compensation would not change significantly from the amounts recorded.

During the year ended September 30, 2018, employees of the City were covered by a health and dental insurance plan. The City pays 90% of the monthly premium of employees choosing individual coverage only. The City pays 70% of the monthly premium for employees choosing to cover themselves and their dependents.

Note 10. Prior Period Adjustment

In the current fiscal year, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. As a result, the beginning net position of the City's governmental activities, business-type activities and enterprise water and sewer fund have been restated on the Statement of Activities to reflect the total OPEB liability and deferred outflow of resources related to OPEB contributions made after the prior measurement date as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Enterprise - Water and Sewer</u>	<u>Internal Service Fund</u>
Beginning Net Position (as previously reported)	\$ 80,697,702	\$ 40,150,896	\$ 40,150,896	\$ 1,204,211
Change in accounting principles				
Net OPEB obligation (GASB 45)	807,232	139,306	139,306	-
Net OPEB liability (GASB 75)	(1,356,520)	(205,711)	(205,711)	-
OPEB contributions made after the measurement date	28,598	4,470	4,470	-
Correction of error				
Capital asset	(859,379)	421,828	421,828	(186,083)
	<u>(1,380,069)</u>	<u>359,893</u>	<u>359,893</u>	<u>(186,083)</u>
Beginning Net Position (as restated)	<u>\$ 79,317,633</u>	<u>\$ 40,510,789</u>	<u>\$ 40,510,789</u>	<u>\$ 1,018,128</u>

Note 11. Subsequent Events

In preparing the financial statements, the City has evaluated events and transactions for potential recognition or disclosure through March 22, 2019, the date on which the financial statements were available to be issued. In December 2018, the City issued Waterworks and Sewer System Revenue Bonds, Series 2018 in the amount of \$20,170,000. The bonds will be used to make certain system extensions and improvements, to fund a deposit to the Reserve Fund and to pay costs of issuance of the Bonds.



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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FRIENDSWOOD, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (WITH VARIANCES)**

GENERAL FUND

For the Year Ended September 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final budget - Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 14,864,246	\$ 14,864,246	\$ 14,487,465	\$ (376,781)
Sales and alcohol taxes	5,763,204	5,763,204	6,395,814	632,610
Franchise taxes	1,709,283	1,715,075	1,617,121	(97,954)
Fines and forfeitures	682,605	682,605	669,847	(12,758)
Permits and fees	1,519,332	1,531,832	1,518,956	(12,876)
Intergovernmental	267,991	4,234,881	4,398,836	163,955
Investment earnings	88,043	88,043	166,817	78,774
Donations	10,000	123,453	162,324	38,871
Miscellaneous	7,092	8,692	181,017	172,325
Total Revenues	24,911,796	29,012,031	29,598,197	586,166
Expenditures				
General government:				
Mayor and council - governing body:				
Supplies and maintenance	4,211	6,313	6,272	41
Other services and charges	52,866	108,159	64,297	43,862
Total governing body	57,077	114,472	70,569	43,903
Mayor and council - city attorney:				
Personnel services	189,018	229,319	214,173	15,146
Supplies	300	1,100	889	211
Other services and charges	18,600	17,800	1,856	15,944
Total city attorney	207,918	248,219	216,918	31,301
City manager - administration:				
Personnel services	703,566	923,223	832,724	90,499
Supplies	17,755	24,283	18,579	5,704
Other services and charges	64,889	194,316	54,906	139,410
Total administration	786,210	1,141,822	906,209	235,613
City manager - economic development:				
Personnel services	174,277	174,277	171,549	2,728
Supplies	6,000	5,915	3,441	2,474
Other services and charges	74,080	87,935	56,581	31,354
Total economic development	254,357	268,127	231,571	36,556
City secretary - municipal clerk:				
Personnel services	317,126	312,626	311,233	1,393
Supplies	5,558	5,893	5,727	166
Other services and charges	17,722	16,277	11,848	4,429
Total municipal clerk	340,406	334,796	328,808	5,988

CITY OF FRIENDSWOOD, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (WITH VARIANCES)**

GENERAL FUND (continued)

For the Year Ended September 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final budget - Positive (Negative)
	Original	Final		
General government (continued):				
City secretary - election services:				
Personnel services	7,980	7,980	3,460	4,520
Supplies	6,477	10,048	9,709	339
Repairs and maintenance	525	580	555	25
Other services and charges	12,554	10,668	9,519	1,149
Total election services	27,536	29,276	23,243	6,033
City secretary - records management:				
Personnel services	122,450	130,050	130,049	1
Supplies	944	2,894	522	2,372
Other services and charges	30,440	26,360	23,074	3,286
Total records management	153,834	159,304	153,645	5,659
Administrative services - finance:				
Personnel services	844,155	853,193	828,722	24,471
Supplies	8,580	12,279	10,626	1,653
Other services and charges	84,412	94,159	73,314	20,845
Total finance	937,147	959,631	912,662	46,969
Administrative services - other admin:				
Other services and charges	243,502	243,502	180,821	62,681
Total other admin	243,502	243,502	180,821	62,681
Administrative services - municipal court:				
Personnel services	422,753	382,737	366,286	16,451
Supplies	5,050	8,409	6,060	2,349
Other services and charges	25,636	23,636	18,398	5,238
Total municipal court	453,439	414,782	390,744	24,038
Administrative services - human resources:				
Personnel services	434,149	344,572	336,699	7,873
Supplies	12,400	11,686	4,609	7,077
Other services and charges	83,302	100,772	79,486	21,286
Total human resources	529,851	457,030	420,794	36,236
Administrative services - insurance:				
Other services and charges	178,013	178,013	169,349	8,664
Total insurance	178,013	178,013	169,349	8,664

CITY OF FRIENDSWOOD, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

BUDGET AND ACTUAL (WITH VARIANCES)

GENERAL FUND (continued)

For the Year Ended September 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final budget - Positive (Negative)
	Original	Final		
General government (continued):				
Administrative services - risk management:				
Personnel services	122,373	131,032	131,033	(1)
Supplies	11,420	20,751	16,382	4,369
Other services and charges	29,257	19,926	16,612	3,314
Total risk management	163,050	171,709	164,027	7,682
Administrative services - information technology:				
Personnel services	551,545	559,927	492,073	67,854
Supplies	41,950	296,366	268,381	27,985
Repairs and maintenance	70,800	71,426	58,102	13,324
Other services and charges	474,588	506,545	440,375	66,170
Total information technology	1,138,883	1,434,264	1,258,931	175,333
Total general government	5,471,223	6,154,947	5,428,291	726,656
Public Safety:				
Police department - administration:				
Personnel services	801,234	801,234	800,554	680
Supplies	31,746	34,444	16,636	17,808
Repairs and maintenance	26,500	7,732	2,176	5,556
Other services and charges	115,836	108,836	93,627	15,209
Total administration	975,316	952,246	912,993	39,253
Police department - communications:				
Personnel services	1,101,746	1,104,449	1,104,448	1
Supplies	9,700	9,700	4,820	4,880
Repairs and maintenance	35,934	35,934	28,211	7,723
Other services and charges	76,082	73,560	53,073	20,487
Total communications	1,223,462	1,223,643	1,190,552	33,091
Police department - patrol:				
Personnel services	4,989,505	4,982,712	4,975,286	7,426
Supplies	273,877	339,685	302,636	37,049
Repairs and maintenance	176,285	143,936	135,060	8,876
Other services and charges	303,890	310,590	302,489	8,101
Total patrol	5,743,557	5,776,923	5,715,471	61,452
Police department - patrol - DOT program:				
Personnel services	100,832	116,966	116,967	(1)
Supplies	4,729	4,729	4,232	497
Repairs and maintenance	1,000	2,128	2,128	-
Other services and charges	14,297	13,169	8,643	4,526
Total patrol - DOT program	120,858	136,992	131,970	5,022

CITY OF FRIENDSWOOD, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (WITH VARIANCES)**

GENERAL FUND (continued)

For the Year Ended September 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final budget - Positive (Negative)
	Original	Final		
Public Safety (continued):				
Police department - criminal investigation:				
Personnel services	1,571,502	1,626,916	1,626,916	-
Supplies	49,211	54,398	42,856	11,542
Repairs and maintenance	34,360	22,193	20,688	1,505
Other services and charges	90,075	91,746	86,706	5,040
Total criminal investigation	1,745,148	1,795,253	1,777,166	18,087
Police department - animal control:				
Personnel services	288,566	318,226	318,224	2
Supplies	30,399	33,510	31,734	1,776
Repairs and maintenance	5,400	9,200	7,847	1,353
Other services and charges	92,473	45,803	38,020	7,783
Total animal services	416,838	406,739	395,825	10,914
Friendswood Volunteer Fire Department - fire administrations:				
Other services and charges	1,619,298	1,619,298	1,620,288	(990)
Total fire administration	1,619,298	1,619,298	1,620,288	(990)
Fire marshal - administration:				
Personnel services	636,473	640,876	632,940	7,936
Supplies	20,700	24,200	17,288	6,912
Repairs and maintenance	8,555	8,555	6,616	1,939
Other services and charges	36,986	33,486	24,519	8,967
Total administration	702,714	707,117	681,363	25,754
Fire marshal - emergency management:				
Personnel services	92,737	92,737	89,838	2,899
Supplies	26,282	138,186	135,264	2,922
Repairs and maintenance	3,725	5,725	5,589	136
Other services and charges	51,200	47,003	40,362	6,641
Total emergency management	173,944	283,651	271,053	12,598
Fire marshal - storm:				
Supplies	-	123,106	121,918	1,188
Repairs and maintenance	-	1,688	1,447	241
Other services and charges	-	3,852,971	3,822,601	30,370
Total storm	-	3,977,765	3,945,966	31,799
Total public safety	12,721,135	16,879,627	16,642,647	236,980

*SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND (continued)
For the Year Ended September 30, 2018*

	Budgeted Amounts		Actual Amounts	Variance with Final budget -
	Original	Final		Positive (Negative)
Public Works:				
Administration:				
Personnel services	302,471	303,438	302,463	975
Supplies	3,040	91,502	19,906	71,596
Other services and charges	13,460	17,865	10,474	7,391
Total administration	318,971	412,805	332,843	79,962
Streets:				
Personnel services	809,538	809,538	635,833	173,705
Supplies	88,460	102,788	96,472	6,316
Repairs and maintenance	133,800	115,946	91,515	24,431
Other services and charges	419,070	434,070	432,704	1,366
Total streets	1,450,868	1,462,342	1,256,524	205,818
Drainage:				
Personnel services	329,314	329,820	269,189	60,631
Supplies	11,130	12,130	10,117	2,013
Repairs and maintenance	50,500	40,000	28,693	11,307
Other services and charges	18,636	44,136	13,786	30,350
Total drainage	409,580	426,086	321,785	104,301
Capital projects administration:				
Personnel services	228,255	229,299	229,293	6
Supplies	5,582	8,817	6,880	1,937
Repairs and maintenance	4,500	4,500	894	3,606
Other services and charges	21,736	17,757	9,058	8,699
Total capital projects administration	260,073	260,373	246,125	14,248
Total public works	2,439,492	2,561,606	2,157,277	404,329
Community development:				
Administration:				
Personnel services	227,259	263,880	263,062	818
Supplies	4,350	4,730	4,079	651
Other services and charges	12,050	13,010	8,658	4,352
Total administration	243,659	281,620	275,799	5,821

*SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND (continued)
For the Year Ended September 30, 2018*

	Budgeted Amounts		Actual Amounts	Variance with Final budget - Positive (Negative)
	Original	Final		
Community development (continued):				
Planning and zoning:				
Personnel services	275,237	269,358	269,128	230
Supplies	1,300	1,300	834	466
Repairs and maintenance	450	450	-	450
Other services and charges	31,370	30,410	14,652	15,758
Total planning and zoning	<u>308,357</u>	<u>301,518</u>	<u>284,614</u>	<u>16,904</u>
Inspection and code enforcement:				
Personnel services	384,669	392,856	392,858	(2)
Supplies	11,193	12,093	10,110	1,983
Repairs and maintenance	2,975	3,857	2,456	1,401
Other services and charges	40,747	32,915	19,472	13,443
Total inspection and code enforcement	<u>439,584</u>	<u>441,721</u>	<u>424,896</u>	<u>16,825</u>
Total community development	<u>991,600</u>	<u>1,024,859</u>	<u>985,309</u>	<u>39,550</u>
Parks and recreation:				
Administration:				
Personnel services	244,091	248,361	248,359	2
Supplies	4,500	4,680	4,154	526
Repairs and maintenance	30,425	27,667	26,627	1,040
Total drainage	<u>279,016</u>	<u>280,708</u>	<u>279,140</u>	<u>1,568</u>
Recreation programs:				
Personnel services	245,997	251,773	251,764	9
Supplies	25,850	18,632	17,771	861
Other services and charges	69,428	82,842	78,182	4,660
Total recreation programs	<u>341,275</u>	<u>353,247</u>	<u>347,717</u>	<u>5,530</u>
July 4th program:				
Personnel services	27,937	33,098	33,097	1
Supplies	4,275	5,071	5,071	-
Other services and charges	64,050	69,975	69,933	42
Total July 4th program	<u>96,262</u>	<u>108,144</u>	<u>108,101</u>	<u>43</u>
Summer day camp program:				
Personnel services	70,995	75,477	75,477	-
Supplies	15,450	16,085	15,904	181
Other services and charges	41,150	34,489	31,667	2,822
Total summer day camp program	<u>127,595</u>	<u>126,051</u>	<u>123,048</u>	<u>3,003</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (WITH VARIANCES)**

GENERAL FUND (continued)

For the Year Ended September 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final budget - Positive (Negative)
	Original	Final		
Parks and recreation (continued):				
Keep Friendswood Beautiful committee:				
Supplies	12,900	17,352	17,204	148
Repairs and maintenance	12,000	4,677	4,648	29
Other services and charges	42,150	55,223	55,223	-
Total Keep Friendswood Beautiful committee	67,050	77,252	77,075	177
Stevenson Park pool:				
Personnel services	62,261	60,549	49,188	11,361
Supplies	17,550	20,642	20,641	1
Repairs and maintenance	7,843	4,246	3,892	354
Other services and charges	27,858	26,475	21,995	4,480
Total Stevenson park pool	115,512	111,912	95,716	16,196
Senior activity center:				
Personnel services	172,688	179,402	179,401	1
Supplies	12,790	11,816	10,264	1,552
Repairs and maintenance	2,000	1,000	857	143
Other services and charges	13,106	15,616	13,961	1,655
Total senior activity center	200,584	207,834	204,483	3,351
Park operations:				
Personnel services	641,877	637,348	616,441	20,907
Supplies	106,824	83,671	82,875	796
Repairs and maintenance	149,500	207,070	204,912	2,158
Other services and charges	551,410	562,337	522,341	39,996
Total parks operations	1,449,611	1,490,426	1,426,569	63,857
Facility operations:				
Supplies	31,000	32,782	29,140	3,642
Repairs and maintenance	156,580	176,301	158,942	17,359
Other services and charges	525,446	941,721	655,721	286,000
Total facility operations	713,026	1,150,804	843,803	307,001
Total parks and recreation	3,389,931	3,906,378	3,505,652	400,726
Library:				
Administration:				
Personnel services	1,037,121	1,037,248	1,023,783	13,465
Supplies	154,469	176,002	153,485	22,517
Repairs and maintenance	840	840	240	600
Other services and charges	23,625	21,410	20,006	1,404
Total administration	1,216,055	1,235,500	1,197,514	37,986

*SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (WITH VARIANCES)
 GENERAL FUND (continued)
 For the Year Ended September 30, 2018*

	Budgeted Amounts		Actual Amounts	Variance with Final budget - Positive (Negative)
	Original	Final		
Library (continued):				
Board:				
Supplies	-	3,232	2,998	234
Total board	-	3,232	2,998	234
Total library	<u>1,216,055</u>	<u>1,238,732</u>	<u>1,200,512</u>	<u>38,220</u>
Capital improvements:				
Other services and charges	-	70,014	70,014	-
Capital outlay	567,849	4,621,368	1,441,679	3,179,689
Total capital improvements	<u>567,849</u>	<u>4,691,382</u>	<u>1,511,693</u>	<u>3,179,689</u>
Total Expenditures	<u>26,797,285</u>	<u>36,457,531</u>	<u>31,431,381</u>	<u>5,026,150</u>
Excess (deficiency) of revenues over expenditures	<u>(1,885,489)</u>	<u>(7,445,500)</u>	<u>(1,833,184)</u>	<u>5,612,316</u>
Other Financing Sources (Uses)				
Insurance recoveries	-	357,410	725,304	367,894
Sale of capital assets	-	5,905	9,135	3,230
Issuance of capital lease	-	485,305	485,305	-
Transfers in	1,402,989	1,620,500	1,402,989	(217,511)
Transfers out	-	(47,000)	(47,000)	-
Total Other Financing Sources (Uses)	<u>1,402,989</u>	<u>2,422,120</u>	<u>2,575,733</u>	<u>153,613</u>
Net change in fund balances	(482,500)	(5,023,380)	742,549	5,765,929
Fund balances - beginning	<u>13,542,757</u>	<u>13,542,757</u>	<u>13,542,757</u>	<u>-</u>
Fund balances - ending	<u>\$ 13,060,257</u>	<u>\$ 8,519,377</u>	<u>\$ 14,285,306</u>	<u>\$ 5,765,929</u>

CITY OF FRIENDSWOOD, TEXAS

NOTES TO BUDGETARY SCHEDULE

September 30, 2018

Budgetary Information

The City's Code of Ordinances establishes the following framework for the preparation and format of the City's annual budget:

Content

The budget shall provide a complete financial plan of all City funds and activities and, except as required by law or this Charter, shall be in such form as the City Manager deems desirable or the Council may require. The budget shall begin with a clear general summary of its contents; shall show in details all estimated income, the proposed property tax levy, and all proposed expenditures for the ensuing fiscal years, including debt service and an itemized estimate of the expense of conducting each Department of the City. The proposed budget expenditures shall not exceed the total of estimated income. It shall also include, in separate sections:

- 1) Tax levies, rates and collections for the preceding five years.
- 2) The amount required for interest on the City's debts, for sinking fund and for maturing serial bonds.
- 3) The total amount of outstanding City debts, with a schedule of maturities on bond issues.
- 4) Anticipated net surplus of deficit for the ensuing fiscal year of each utility owned or operated by the City and the proposed method of its disposition, subsidiary budgets for each such utility giving detailed income and expenditure information shall be attached as appendices to the budget.
- 5) A capital program, which may be revised and extended each year to indicate capital improvements pending or in process of construction or acquisition, and shall include the following items which shall be attached as appendices to the budget:
 - a) A summary of proposed programs;
 - b) A list of all capital improvements which are proposed to be undertaken during the five fiscal years next ensuing, with appropriate supporting information as to the necessity for such improvements;
 - c) Cost estimates, method of financing and recommended time schedules from each such improvement and
 - d) The estimated annual cost of operating and maintaining the facilities to be constructed or acquired.
- 6) Such other information as may be required by the Council.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO BUDGETARY SCHEDULE (continued)
September 30, 2018

Submission

On or before the first day of August of each year, the City Manager shall submit to the Council a proposed budget and an accompanying message. The Council shall review the proposed budget and revise as deemed appropriate prior to general circulation for public hearing.

Public Notice and Hearing

The Council shall post in the City Hall and publish in the official newspaper a general summary of their proposed budget and a notice stating:

- 1) The times and places where copies of the message and budget are available for inspection by the public; and
- 2) The time and place, not less than ten nor more than 30 days after such publication, for a public hearing on the budget.

Amendment Before Adoption

After the public hearing, the Council may adopt the budget with or without amendment. In amending the budget, it may add or increase programs or amounts and may delete or decrease any programs or amounts, except expenditures required by law or for debt service or for estimated cash deficit, provided that no amendment to the budget shall increase the authorized expenditures to an amount greater than the total of estimated income plus funds available from prior years.

If the Council fails to adopt an annual budget before the start of the fiscal year to which it applies, appropriations of the last budget adopted shall be considered as adopted for the current fiscal year on a month to month, pro rata basis, until the annual budget is adopted. Adoption of the budget shall require an affirmative vote of at least a majority of all members of the Council. Adoption of the budget shall constitute appropriations of the amounts specified therein as expenditures from the funds indicated.

Amendments After Adoption

At any time during the fiscal year, the City Manager may transfer part or all of any unencumbered appropriation balance among programs within a department, division, or office, and, upon written request by the City Manager, the Council may be by ordinance transfer part or all of any unencumbered appropriation balance from one department, office, or agency to another

No appropriation for debt service may be reduced or transferred and no appropriation may be reduced below any amount required by law to be appropriated or by more than the amount of the unencumbered balance thereof. The City Council made supplemental budgetary appropriation changes during the fiscal year. The reported budgetary data has been revised for these amendments legally authorized during the year.

Excess of Expenditures over Appropriations

For the year ended September 30, 2018, there were no expenditures that exceeded appropriations for the City.

CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
Last Four Measurement Years

	2017	2016	2015	2014
A. Total pension liability				
1. Service Cost	\$ 2,505,392	\$ 2,334,817	\$ 2,204,299	\$ 2,018,353
2. Interest (on the Total Pension Liability)	4,755,782	4,435,987	4,317,394	4,084,392
3. Difference between expected and actual experience	(60,180)	366,687	(1,032,789)	(736,093)
4. Changes of assumptions	-	-	847,469	-
5. Benefit payments, including refunds of employee contributions	(2,505,921)	(2,464,107)	(2,256,734)	(2,005,311)
6. Net change in total pension liability	4,695,073	4,673,384	4,079,639	3,361,341
7. Total pension liability – beginning	70,456,304	65,782,920	61,703,281	58,341,940
8. Total pension liability – ending	75,151,377	70,456,304	65,782,920	61,703,281
B. Plan fiduciary net position				
1. Contributions – employer	2,182,093	2,037,849	1,998,038	1,867,782
2. Contributions – employee	987,399	923,896	886,669	829,598
3. Net investment income	8,104,390	3,672,583	79,202	2,868,842
4. Benefit payments, including refunds of employee contributions	(2,505,921)	(2,464,107)	(2,256,734)	(2,005,311)
5. Administrative Expense	(41,987)	(41,467)	(48,239)	(29,949)
6. Other	(2,127)	(2,234)	(2,383)	(2,462)
7. Net change in plan fiduciary net position	8,723,847	4,126,520	656,553	3,528,500
8. Plan fiduciary net position – beginning	58,455,358	54,328,838	53,672,285	50,143,785
9. Plan fiduciary net position – ending	67,179,205	58,455,358	54,328,838	53,672,285
C. Net pension liability (A.9 – B.9)	\$ 7,972,172	\$ 12,000,946	\$ 11,454,082	\$ 8,030,996
D. Plan fiduciary net position as a percentage of the total pension liability	89.39%	82.97%	82.59%	86.98%
E. Covered-employee payroll	\$ 14,098,997	\$ 13,198,512	\$ 12,653,842	\$ 11,851,396
F. Net position liability as a percentage of covered employee payroll	56.54%	90.93%	90.52%	67.76%

Note: Ten years of data should be presented in this schedule but data was unavailable prior to 2014.

CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF CITY CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
Last Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially required contributions	\$ 2,255,270	\$ 2,161,617	\$ 2,100,698	\$ 1,960,652	\$ 1,847,375
Contributions in relation to the actuarially required contributions	<u>2,255,270</u>	<u>2,161,617</u>	<u>2,100,698</u>	<u>1,960,652</u>	<u>1,847,375</u>
Contribution deficiency (excess)	<u>\$ -</u>				
City's covered-employee payroll	\$ 14,385,208	\$ 13,986,135	\$ 13,525,613	\$ 12,423,310	\$ 11,781,281
Contributions as a percentage of covered-employee payroll	15.68%	15.46%	15.53%	15.78%	15.68%

Note: Ten years of data should be presented in this schedule but data was unavailable prior to 2014.

Notes to Schedule of Contributions

Valuation Date: 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	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the 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 generational basis with scale BB

Other Information: There were no benefit changes during the year.

CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM SUPPLEMENTAL DEATH BENEFITS FUND
Last Measurement Year

	<u>2017</u>
Service cost	\$ 26,788
Interest	20,384
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	49,777
Benefit payments	<u>(5,640)</u>
Net change in total OPEB liability	91,309
Total OPEB liability - beginning	<u>528,674</u>
Total OPEB liability - ending	<u><u>\$ 619,983</u></u>
Covered payroll	\$ 14,098,997
Total OPEB liability as a percentage of covered payroll	4.40%

Notes to the Required Supplementary Information

Amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end.

Total OPEB liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 75.

Ten years of data should be presented in this schedule but data was unavailable prior to 2017.

Notes to Required Supplementary Information:

Changes of assumptions:

Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2017	3.31%
2016	3.81%

CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
CITY OF FRIENDSWOOD RETIREE HEALTH CARE PLAN
Last Measurement Year

	2018
Service cost	\$ 44,637
Interest	39,497
Changes of benefit terms	-
Difference between expected and actual experience	4,573
Changes of assumptions	51,765
Benefit payments	(38,414)
Net change in total OPEB liability	102,058
Total OPEB liability - beginning	1,033,557
Total OPEB liability - ending	<u>\$ 1,135,615</u>
Covered payroll	\$ 12,035,859
Total OPEB liability as a percentage of covered payroll	9.44%

Notes to the Required Supplementary Information

Total OPEB liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 75.

Ten years of data should be presented in this schedule but data was unavailable prior to 2017.

Methods and Assumptions Used to Determine Contribution Rates:

The demographic assumptions are based on the assumptions that were developed for the defined benefit plan in which the City participates (TMRS). The assumptions are based on the experience study covering the four year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS).



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**COMBINING AND INDIVIDUAL
STATEMENTS AND SCHEDULES**



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NONMAJOR GOVERNMENTAL FUNDS

The *Special Revenue Funds* are used to account for specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Police Investigation Fund – This fund is used to account for revenues that are restricted to police investigation expenditures.

Fire/EMS Donation Fund – This fund accounts for revenues that are restricted for Fire/EMS capital outlays and debt repayments.

Court Security and Technology Fund – This fund accounts for revenues that are restricted for court technology and building security. In 1999, the state legislature authorized a court technology and court security fee for municipal court fines.

Debt Service Funds are used to account for the accumulation of resources that are restricted, committed, or assigned for the repayment of principal and interest on long-term obligations of the governmental funds.

Debt Service Fund – is used to account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs.

The *Permanent Fund* is used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the City's programs.

1776 Park Fund – This fund is used to account for assets held by the City in a trustee capacity and the earnings benefit this City Park.

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities.

Sidewalk Installation Fund – This fund is used to account for receipts from developers to install sidewalks in neighborhood developments.

Park Land Dedication Fund – This fund is used to account for receipts from developers to build or enhance neighborhood and community parks.

Street Improvement Fund – This fund is used to record sales tax revenue collected for City's streets maintenance and improvements.

CITY OF FRIENDSWOOD, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2018

	Special Revenue Funds			
	Police Investigation	Fires/EMS Donation	Court Security and Technology	Debt Service
Assets				
Cash and cash equivalents	\$ 88,016	\$ 19,558	\$ 64,881	\$ 10,424
Investments	217,936	48,986	162,499	26,108
Receivables, net of allowance:				
Taxes receivable	-	-	-	39,957
Customer accounts	-	2,715	-	-
Other receivables	-	-	3,573	-
Accrued interest	392	158	327	617
Total Assets	\$ 306,344	\$ 71,417	\$ 231,280	\$ 77,106
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 34,129	\$ -	\$ -	\$ -
Total Liabilities	34,129	-	-	-
Deferred Inflows of Resources:				
Unavailable revenue	-	-	3,752	18,060
Total Deferred Inflows	-	-	3,752	18,060
Fund Balances:				
Nonspendable:				
Permanent fund	-	-	-	-
Restricted:				
Municipal court operations			227,528	-
Debt service	-	-	-	59,046
Public safety	272,215	71,417	-	-
Capital projects	-	-	-	-
Total Fund Balances	272,215	71,417	227,528	59,046
Total Liabilities, deferred inflows of resources, and fund balances	\$ 306,344	\$ 71,417	\$ 231,280	\$ 77,106

<u>Permanent</u>	<u>Capital Projects Funds</u>				<u>Total Nonmajor Governmental Funds</u>
<u>1776 Park</u>	<u>Sidewalk Installation</u>	<u>Park Land Dedication</u>	<u>Street Improvement</u>		
\$ 6,925	\$ 7,567	\$ 70,467	\$ 655,947	\$ 923,785	
17,339	18,951	173,234	1,642,889	2,307,942	
-	-	-	287,429	327,386	
-	-	-	-	2,715	
-	-	-	-	3,573	
43	40	398	2,940	4,915	
<u>\$ 24,307</u>	<u>\$ 26,558</u>	<u>\$ 244,099</u>	<u>\$ 2,589,205</u>	<u>\$ 3,570,316</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>1,301</u>	<u>\$ -</u>	<u>\$ 35,430</u>	
<u>-</u>	<u>-</u>	<u>1,301</u>	<u>-</u>	<u>35,430</u>	
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,812</u>	
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,812</u>	
24,307	-	-	-	24,307	
-	-	-	-	227,528	
-	-	-	-	59,046	
-	-	-	-	343,632	
-	26,558	242,798	2,589,205	2,858,561	
<u>24,307</u>	<u>26,558</u>	<u>242,798</u>	<u>2,589,205</u>	<u>3,513,074</u>	
<u>\$ 24,307</u>	<u>\$ 26,558</u>	<u>\$ 244,099</u>	<u>\$ 2,589,205</u>	<u>\$ 3,570,316</u>	

CITY OF FRIENDSWOOD, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2018

	Special Revenue Funds			
	Police Investigation	Fires/EMS Donation	Court Security and Technology	Debt Service
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ 3,177,173
Sales taxes	-	-	-	-
Fines and forfeitures	262,274	-	25,550	-
Permits and fees	-	-	-	-
Donations	-	233,686	-	-
Investment earnings	1,986	1,475	2,522	6,815
Total Revenues	264,260	235,161	28,072	3,183,988
Expenditures				
Current:				
General government	-	-	12,597	-
Public safety	56,673	169,611	-	-
Parks and recreation	-	-	-	-
Debt service:				
Principal	-	60,146	-	2,077,138
Interest and other	-	5,658	-	1,139,742
Capital outlay	40,792	-	-	-
Total Expenditures	97,465	235,415	12,597	3,216,880
Net change in fund balances	166,795	(254)	15,475	(32,892)
Fund balances - beginning	105,420	71,671	212,053	91,938
Fund balances - ending	\$ 272,215	\$ 71,417	\$ 227,528	\$ 59,046

<u>Permanent</u>	<u>Capital Projects Funds</u>			Total Nonmajor Governmental Funds
1776 Park	Sidewalk Installation	Park Land Dedication	Street Improvement	
\$ -	\$ -	\$ -	\$ -	\$ 3,177,173
-	-	-	1,569,848	1,569,848
-	-	-	-	287,824
-	-	47,700	-	47,700
-	-	-	-	233,686
363	305	1,737	17,206	32,409
<u>363</u>	<u>305</u>	<u>49,437</u>	<u>1,587,054</u>	<u>5,348,640</u>
-	-	-	-	12,597
-	-	-	-	226,284
-	-	5,494	-	5,494
-	-	-	-	2,137,284
-	-	-	-	1,145,400
7,925	-	103,619	-	152,336
<u>7,925</u>	<u>-</u>	<u>109,113</u>	<u>-</u>	<u>3,679,395</u>
(7,562)	305	(59,676)	1,587,054	1,669,245
<u>31,869</u>	<u>26,253</u>	<u>302,474</u>	<u>1,002,151</u>	<u>1,843,829</u>
<u>\$ 24,307</u>	<u>\$ 26,558</u>	<u>\$ 242,798</u>	<u>\$ 2,589,205</u>	<u>\$ 3,513,074</u>

CITY OF FRIENDSWOOD, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

BUDGET AND ACTUAL

BOND CONSTRUCTION

For the Year Ended September 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
Revenues				
Investment earnings	\$ -	\$ -	\$ 114,567	\$ 114,567
Total Revenues	<u>-</u>	<u>-</u>	<u>114,567</u>	<u>114,567</u>
Expenditures				
Capital outlay	6,464,476	4,945,794	951,509	3,994,285
Total Expenditures	<u>6,464,476</u>	<u>4,945,794</u>	<u>951,509</u>	<u>3,994,285</u>
Net change in fund balances	(6,464,476)	(4,945,794)	(836,942)	4,108,852
Fund balances - beginning	<u>6,652,899</u>	<u>6,652,899</u>	<u>6,652,899</u>	<u>-</u>
Fund balances - ending	<u>\$ 188,423</u>	<u>\$ 1,707,105</u>	<u>\$ 5,815,957</u>	<u>\$ 4,108,852</u>

CITY OF FRIENDSWOOD, TEXAS**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -****BUDGET AND ACTUAL****POLICE INVESTIGATION***For the Year Ended September 30, 2018*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues				
Fines and forfeitures	\$ -	\$ -	\$ 262,274	\$ 262,274
Investment earnings	320	320	1,986	1,666
Total Revenues	<u>320</u>	<u>320</u>	<u>264,260</u>	<u>263,940</u>
Expenditures				
Current:				
Public safety	-	62,632	56,673	5,959
Capital outlay	<u>-</u>	<u>40,793</u>	<u>40,792</u>	<u>1</u>
Total Expenditures	<u>-</u>	<u>103,425</u>	<u>97,465</u>	<u>5,960</u>
Net change in fund balances	320	(103,105)	166,795	269,900
Fund balances - beginning	<u>105,420</u>	<u>105,420</u>	<u>105,420</u>	<u>-</u>
Fund balances - ending	<u>\$ 105,740</u>	<u>\$ 2,315</u>	<u>\$ 272,215</u>	<u>\$ 269,900</u>

CITY OF FRIENDSWOOD, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

BUDGET AND ACTUAL

FIRE/EMS DONATION

For the Year Ended September 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Donations	\$ 230,000	\$ 230,000	\$ 233,686	\$ 3,686
Investment earnings	225	225	1,475	1,250
Total Revenues	<u>230,225</u>	<u>230,225</u>	<u>235,161</u>	<u>4,936</u>
Expenditures				
Current:				
Public safety	95,168	95,168	169,611	(74,443)
Debt service:				
Principal	129,398	129,398	60,146	69,252
Interest and other charges	5,659	5,659	5,658	1
Total Expenditures	<u>230,225</u>	<u>230,225</u>	<u>235,415</u>	<u>(5,190)</u>
Net change in fund balances	-	-	(254)	(254)
Fund balances - beginning	<u>71,671</u>	<u>71,671</u>	<u>71,671</u>	<u>-</u>
Fund balances - ending	<u>\$ 71,671</u>	<u>\$ 71,671</u>	<u>\$ 71,417</u>	<u>\$ (254)</u>

CITY OF FRIENDSWOOD, TEXAS*SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**BUDGET AND ACTUAL**COURT SECURITY AND TECHNOLOGY**For the Year Ended September 30, 2018*

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Fines and forfeitures	\$ 32,000	\$ 32,000	\$ 25,550	\$ (6,450)
Interest income	1,500	1,500	2,522	1,022
Total Revenues	<u>33,500</u>	<u>33,500</u>	<u>28,072</u>	<u>(5,428)</u>
Expenditures				
Current:				
General government	34,909	34,909	12,597	22,312
Capital outlay	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Total Expenditures	<u>34,909</u>	<u>44,909</u>	<u>12,597</u>	<u>32,312</u>
Net change in fund balances	(1,409)	(11,409)	15,475	26,884
Fund balances - beginning	<u>212,053</u>	<u>212,053</u>	<u>212,053</u>	<u>-</u>
Fund balances - ending	<u>\$ 210,644</u>	<u>\$ 200,644</u>	<u>\$ 227,528</u>	<u>\$ 26,884</u>

CITY OF FRIENDSWOOD, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

BUDGET AND ACTUAL

DEBT SERVICE

For the Year Ended September 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Property taxes	\$ 3,243,073	\$ 3,243,073	\$ 3,177,173	\$ (65,900)
Investment earnings	5,000	5,000	6,815	1,815
Total Revenues	<u>3,248,073</u>	<u>3,248,073</u>	<u>3,183,988</u>	<u>(64,085)</u>
Expenditures				
Debt service:				
Principal	4,035,051	2,100,051	2,077,138	22,913
Interest and other charges	<u>2,147,253</u>	<u>1,151,378</u>	<u>1,139,742</u>	<u>11,636</u>
Total Expenditures	<u>6,182,304</u>	<u>3,251,429</u>	<u>3,216,880</u>	<u>34,549</u>
Excess (deficiency) of revenues over expenditures	<u>(2,934,231)</u>	<u>(3,356)</u>	<u>(32,892)</u>	<u>(29,536)</u>
Other Financing Sources				
Transfers in	<u>2,930,875</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>2,930,875</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(3,356)	(3,356)	(32,892)	(29,536)
Fund balances - beginning	<u>91,938</u>	<u>91,938</u>	<u>91,938</u>	<u>-</u>
Fund balances - ending	<u>\$ 88,582</u>	<u>\$ 88,582</u>	<u>\$ 59,046</u>	<u>\$ (29,536)</u>

CITY OF FRIENDSWOOD, TEXAS**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -****BUDGET AND ACTUAL****1776 PARK***For the Year Ended September 30, 2018*

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Investment earnings	\$ 200	\$ 200	\$ 363	\$ 163
Total Revenues	<u>200</u>	<u>200</u>	<u>363</u>	<u>163</u>
Expenditures				
Capital outlay	-	21,777	7,925	13,852
Total Expenditures	<u>-</u>	<u>21,777</u>	<u>7,925</u>	<u>13,852</u>
Net change in fund balances	200	(21,577)	(7,562)	14,015
Fund balances - beginning	<u>31,869</u>	<u>31,869</u>	<u>31,869</u>	<u>-</u>
Fund balances - ending	<u>\$ 32,069</u>	<u>\$ 10,292</u>	<u>\$ 24,307</u>	<u>\$ 14,015</u>

CITY OF FRIENDSWOOD, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

BUDGET AND ACTUAL

SIDEWALK INSTALLATION

For the Year Ended September 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
Revenues				
Investment earnings	\$ 120	\$ 120	\$ 305	\$ 185
Total Revenues	<u>120</u>	<u>120</u>	<u>305</u>	<u>185</u>
Expenditures				
Current:	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	120	120	305	185
Fund balances - beginning	<u>26,253</u>	<u>26,253</u>	<u>26,253</u>	<u>-</u>
Fund balances - ending	<u>\$ 26,373</u>	<u>\$ 26,373</u>	<u>\$ 26,558</u>	<u>\$ 185</u>

CITY OF FRIENDSWOOD, TEXAS**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -****BUDGET AND ACTUAL****PARK LAND DEDICATION***For the Year Ended September 30, 2018*

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Permit and fees	\$ 42,000	\$ 42,000	\$ 47,700	\$ 5,700
Investment earnings	620	620	1,737	1,117
Total Revenues	<u>42,620</u>	<u>42,620</u>	<u>49,437</u>	<u>6,817</u>
Expenditures				
Current:				
Parks and recreation	7,580	7,580	5,494	2,086
Capital outlay	124,863	296,927	103,619	193,308
Total Expenditures	<u>132,443</u>	<u>304,507</u>	<u>109,113</u>	<u>195,394</u>
Net change in fund balances	(89,823)	(261,887)	(59,676)	202,211
Fund balances - beginning	<u>302,474</u>	<u>302,474</u>	<u>302,474</u>	<u>-</u>
Fund balances - ending	<u>\$ 212,651</u>	<u>\$ 40,587</u>	<u>\$ 242,798</u>	<u>\$ 202,211</u>

CITY OF FRIENDSWOOD, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

BUDGET AND ACTUAL

STREET IMPROVEMENT

For the Year Ended September 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Sales taxes	\$ 1,382,192	\$ 1,382,192	\$ 1,569,848	\$ 187,656
Investment earnings	500	500	17,206	16,706
Total Revenues	<u>1,382,692</u>	<u>1,382,692</u>	<u>1,587,054</u>	<u>204,362</u>
Expenditures				
Capital outlay	<u>2,322,429</u>	<u>1,700,000</u>	<u>-</u>	<u>1,700,000</u>
Total Expenditures	<u>2,322,429</u>	<u>1,700,000</u>	<u>-</u>	<u>1,700,000</u>
Net change in fund balances	(939,737)	(317,308)	1,587,054	1,904,362
Fund balances - beginning	<u>1,002,151</u>	<u>1,002,151</u>	<u>1,002,151</u>	<u>-</u>
Fund balances - ending	<u>\$ 62,414</u>	<u>\$ 684,843</u>	<u>\$ 2,589,205</u>	<u>\$ 1,904,362</u>

STATISTICAL SECTION
(Unaudited)



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**STATISTICAL SECTION
(Unaudited)**

This part of the City of Friendswood’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government’s overall financial health.

Contents Pages

Financial Trends **108**

These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.

Revenue Capacity **118**

These schedules contain information to help the reader assess the government’s most significant local revenue source, the property tax.

Debt Capacity **123**

These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.

Demographic and Economic Information **128**

This schedule offers demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.

Operating Information **132**

These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF FRIENDSWOOD, TEXAS

NET POSITION BY COMPONENT

Last Ten Fiscal Years

(Accrual Basis of Accounting)

	2018	2017	2016	2015
Governmental Activities				
Net investment in capital assets	\$ 68,320,682	\$ 72,631,192	\$ 73,588,484	\$ 73,611,490
Restricted	4,085,999	2,534,312	1,405,907	1,179,764
Unrestricted	6,248,751	5,532,198	5,579,677	5,901,505
Total governmental activities net position	\$ 78,655,432	\$ 80,697,702	\$ 80,574,068	\$ 80,692,759
Business-type activities				
Net investment in capital assets	\$ 27,088,280	\$ 29,305,429	\$ 28,322,718	\$ 26,628,714
Restricted	582,697	260,703	99,006	27,468
Unrestricted	13,620,211	10,584,764	10,238,993	12,040,181
Total business-type activities net position	\$ 41,291,188	\$ 40,150,896	\$ 38,660,717	\$ 38,696,363
Primary government				
Net investment in capital assets	\$ 95,408,962	\$ 101,936,621	\$ 101,911,202	\$ 100,240,204
Restricted	4,668,696	2,795,015	1,504,913	1,207,232
Unrestricted	19,868,962	16,116,962	15,818,670	17,941,686
Total Primary government net positions	\$ 119,946,620	\$ 120,848,598	\$ 119,234,785	\$ 119,389,122

Table 1

2014	2013	2012	2011	2010	2009
\$ 65,404,791	\$ 65,056,180	\$ 65,582,783	\$ 66,580,049	\$ 70,480,334	\$ 69,313,348
653,496	718,275	872,869	922,874	1,977,801	2,461,510
10,798,907	9,565,406	8,828,132	8,227,254	8,447,179	9,892,077
<u>\$ 76,857,194</u>	<u>\$ 75,339,861</u>	<u>\$ 75,283,784</u>	<u>\$ 75,730,177</u>	<u>\$ 80,905,314</u>	<u>\$ 81,666,935</u>
\$ 24,495,816	\$ 22,961,547	\$ 25,618,823	\$ 26,251,346	\$ 19,565,756	\$ 21,122,644
90,395	176,882	786,600	731,410	593,597	93,526
14,818,104	16,790,183	13,032,798	11,373,311	8,677,882	6,730,812
<u>\$ 39,404,315</u>	<u>\$ 39,928,612</u>	<u>\$ 39,438,221</u>	<u>\$ 38,356,067</u>	<u>\$ 28,837,235</u>	<u>\$ 27,946,982</u>
\$ 89,900,607	\$ 88,017,727	\$ 91,201,606	\$ 92,831,395	\$ 90,046,090	\$ 90,435,992
743,891	895,157	1,659,469	1,654,284	2,571,398	2,555,036
25,617,011	26,355,589	21,860,930	19,600,565	17,125,061	16,622,889
<u>\$ 116,261,509</u>	<u>\$ 115,268,473</u>	<u>\$ 114,722,005</u>	<u>\$ 114,086,244</u>	<u>\$ 109,742,549</u>	<u>\$ 109,613,917</u>

CITY OF FRIENDSWOOD, TEXAS

CHANGES IN NET POSITION

Last Ten Fiscal Years

(Accrual Basis of Accounting)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Expenses				
Governmental activities:				
General government	\$ 5,734,611	\$ 5,128,399	\$ 4,736,867	\$ 5,410,643
Public safety	17,538,040	15,861,719	13,101,691	11,763,659
Community development and public works	-	-	-	-
Public works	6,267,824	4,429,664	4,429,482	3,933,288
Community development	945,701	1,495,001	1,577,813	1,406,288
Parks and recreation services	4,554,114	3,459,053	3,080,453	2,869,345
Library services	1,210,207	1,215,683	1,134,859	1,026,967
Interest and fiscal charges	953,509	953,146	862,654	730,614
Total government activities expenses	<u>37,204,006</u>	<u>32,542,665</u>	<u>28,923,819</u>	<u>27,140,804</u>
Business-type activities:				
Water and wastewater	10,048,912	8,502,218	7,975,920	7,629,711
Interest and other	-	1,086,278	1,642,723	1,524,276
Total business-type activities	<u>10,048,912</u>	<u>9,588,496</u>	<u>9,618,643</u>	<u>9,153,987</u>
Total primary government expenses	<u>\$ 47,252,918</u>	<u>\$ 42,131,161</u>	<u>\$ 38,542,462</u>	<u>\$ 36,294,791</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 861,271	\$ 1,004,968	\$ 1,002,022	\$ 807,245
Public safety	868,761	35,007	28,760	30,275
Community development and public works	-	-	-	-
Public works	213,042	242,184	174,568	190,099
Community development	-	1,036,741	949,011	843,648
Parks and recreation services	344,064	387,915	286,727	280,046
Library services	-	30,600	27,532	33,699
Operating grants and contributions	4,924,228	2,591,025	800,151	660,633
Capital grants and contributions	-	219,808	318,657	3,225,672
Total Governmental activities program revenues:	<u>7,211,366</u>	<u>5,548,248</u>	<u>3,587,428</u>	<u>6,071,317</u>
Business-type activities:				
Charges for services:				
Water and wastewater	12,183,711	12,295,441	11,319,801	11,020,029
Total business-type activities program revenues	<u>12,183,711</u>	<u>12,295,441</u>	<u>11,319,801</u>	<u>11,020,029</u>
Total primary government program revenues	<u>\$ 19,395,077</u>	<u>\$ 17,843,689</u>	<u>\$ 14,907,229</u>	<u>\$ 17,091,346</u>
Net (Expense) Revenues				
Governmental activities	\$ (29,992,640)	\$ (26,994,417)	\$ (25,336,391)	\$ (21,069,487)
Business-type activities	2,134,799	2,706,945	1,701,158	1,866,042
Total primary government net expense	<u>\$ (27,857,841)</u>	<u>\$ (24,287,472)</u>	<u>\$ (23,635,233)</u>	<u>\$ (19,203,445)</u>

Table 2
Page 1 of 2

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 4,589,795	\$ 4,679,339	\$ 4,737,702	\$ 4,876,064	\$ 5,145,447	\$ 5,164,623
11,236,402	10,800,130	10,736,805	10,548,568	10,175,028	14,929,941
-	-	-	-	-	5,292,000
3,921,658	4,385,090	3,738,111	3,517,707	3,853,685	-
1,097,075	1,207,264	1,520,401	1,284,188	1,203,204	-
3,356,587	3,260,931	3,227,731	3,058,313	3,034,523	4,002,165
1,093,043	1,002,801	1,004,303	979,978	979,084	-
630,542	703,275	757,011	871,790	789,652	678,705
<u>25,925,102</u>	<u>26,038,830</u>	<u>25,722,064</u>	<u>25,136,608</u>	<u>25,180,623</u>	<u>30,067,434</u>
7,995,106	7,681,366	6,902,279	6,955,505	6,663,308	6,640,062
1,514,804	1,590,395	1,638,495	1,644,074	2,037,104	1,604,174
<u>9,509,910</u>	<u>9,271,761</u>	<u>8,540,774</u>	<u>8,599,579</u>	<u>8,700,412</u>	<u>8,244,236</u>
<u>\$ 35,435,012</u>	<u>\$ 35,310,591</u>	<u>\$ 34,262,838</u>	<u>\$ 33,736,187</u>	<u>\$ 33,881,035</u>	<u>\$ 38,311,670</u>
\$ 912,910	\$ 989,190	\$ 1,167,619	\$ 1,158,392	\$ 1,072,289	\$ 1,327,484
31,620	34,944	39,661	39,914	38,438	46,773
-	-	-	-	-	602,256
193,064	186,504	171,890	158,858	152,163	-
877,132	825,366	730,211	643,150	550,286	-
315,702	316,047	271,912	267,837	258,030	411,207
36,081	36,686	39,543	43,147	44,313	-
843,995	644,458	648,058	3,150,808	2,819,418	5,755,038
1,202,376	543,763	527,288	-	-	-
<u>4,412,880</u>	<u>3,576,958</u>	<u>3,596,182</u>	<u>5,462,106</u>	<u>4,934,937</u>	<u>8,142,758</u>
11,117,391	11,462,779	11,258,216	12,726,936	9,854,083	12,028,895
<u>11,117,391</u>	<u>11,462,779</u>	<u>11,258,216</u>	<u>12,726,936</u>	<u>9,854,083</u>	<u>12,028,895</u>
<u>\$ 15,530,271</u>	<u>\$ 15,039,737</u>	<u>\$ 14,854,398</u>	<u>\$ 18,189,042</u>	<u>\$ 14,789,020</u>	<u>\$ 20,171,653</u>
\$ (21,502,222)	\$ (22,461,872)	\$ (22,126,882)	\$ (19,674,502)	\$ (20,245,686)	\$ (21,924,667)
1,607,481	2,191,018	2,717,442	4,127,357	1,153,671	3,784,659
<u>\$ (19,894,741)</u>	<u>\$ (20,270,854)</u>	<u>\$ (19,409,440)</u>	<u>\$ (15,547,145)</u>	<u>\$ (19,092,015)</u>	<u>\$ (18,140,008)</u>

CITY OF FRIENDSWOOD, TEXAS

CHANGES IN NET POSITION

Last Ten Fiscal Years

(Accrual Basis of Accounting)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes:				
Property taxes	\$ 17,608,094	\$ 17,270,647	\$ 16,350,101	\$ 15,574,684
Sales taxes	7,965,662	6,482,367	5,393,920	5,291,186
Franchise and other taxes	1,617,121	1,661,654	1,779,234	1,726,557
Other	-	-	-	-
Investment earnings	321,468	187,001	149,003	79,071
Gain (loss) on disposal of capital assets	-	25,999	19,564	-
Miscellaneous	263,245	131,639	128,813	108,306
Transfers	1,554,849	1,358,744	1,397,065	1,226,205
Total governmental activities	<u>29,330,439</u>	<u>27,118,051</u>	<u>25,217,700</u>	<u>24,006,009</u>
Business-type activities:				
Investment earnings	200,449	141,978	95,825	49,138
Gain (loss) on disposal of capital assets	-	-	7,569	-
Miscellaneous	-	-	-	7,839
Transfers	(1,554,849)	(1,358,744)	(1,397,065)	(1,226,205)
Total business-type activities	<u>(1,354,400)</u>	<u>(1,216,766)</u>	<u>(1,293,671)</u>	<u>(1,169,228)</u>
Total primary government	<u>27,976,039</u>	<u>25,901,285</u>	<u>23,924,029</u>	<u>22,836,781</u>
Change in Net Position				
Governmental activities	(662,201)	123,634	(118,691)	2,936,522
Business-type activities	780,399	1,490,179	407,487	696,814
Total primary government	<u>\$ 118,198</u>	<u>\$ 1,613,813</u>	<u>\$ 288,796</u>	<u>\$ 3,633,336</u>

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 14,864,284	\$ 14,630,961	\$ 14,165,599	\$ 13,944,725	\$ 13,664,765	\$ 13,481,500
4,693,484	4,293,794	3,907,577	4,002,740	3,853,161	3,871,995
1,673,615	1,583,258	1,556,556	1,598,407	1,510,794	1,363,221
32,799	24,974	23,356	28,883	28,859	28,859
109,849	88,510	137,202	110,863	93,018	166,492
34,359	43,788	17,601	23,831	33,647	4,320
84,275	78,682	147,457	126,228	131,545	214,484
1,799,344	1,773,982	1,725,141	(5,336,312)	168,276	547,456
<u>23,292,009</u>	<u>22,517,949</u>	<u>21,680,489</u>	<u>14,499,365</u>	<u>19,484,065</u>	<u>19,678,327</u>
40,713	37,565	82,853	55,163	87,056	128,338
-	-	7,000	-	(182,198)	(48,678)
-	35,790	-	-	-	-
(1,799,344)	(1,773,982)	(1,725,141)	5,336,312	(168,276)	(547,456)
<u>(1,758,631)</u>	<u>(1,700,627)</u>	<u>(1,635,288)</u>	<u>5,391,475</u>	<u>(263,418)</u>	<u>(467,796)</u>
<u>21,533,378</u>	<u>20,817,322</u>	<u>20,045,201</u>	<u>19,890,840</u>	<u>19,220,647</u>	<u>19,210,531</u>
1,789,787	56,077	(446,393)	(5,175,137)	(761,621)	(2,246,340)
<u>(151,150)</u>	<u>490,391</u>	<u>1,082,154</u>	<u>9,518,832</u>	<u>890,253</u>	<u>3,316,863</u>
<u>\$ 1,638,637</u>	<u>\$ 546,468</u>	<u>\$ 635,761</u>	<u>\$ 4,343,695</u>	<u>\$ 128,632</u>	<u>\$ 1,070,523</u>

CITY OF FRIENDSWOOD, TEXAS
FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	2018	2017	2016	2015
General fund				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-
Nonspendable	371,610	434,750	646,778	822,226
Restricted	631,971	667,271	626,229	518,119
Committed		-	3,612	685,486
Assigned	4,229,725	2,893,697	2,706,897	2,773,419
Unassigned	9,052,000	9,547,039	9,776,031	8,760,424
Total General Fund	14,285,306	13,542,757	13,759,547	13,559,674
All Other Governmental Funds				
Reserved	-	-	-	-
Unreserved, reported in:				
Special revenue funds	-	-	-	-
Capital projects funds	-	-	-	-
Permanent fund	-	-	-	-
Nonspendable	24,307	31,869	31,721	31,378
Restricted	9,304,724	8,464,859	8,165,349	6,539,985
Unassigned	-	-	(193,750)	-
Total Other Governmental Funds	9,329,031	8,496,728	8,003,320	6,571,363
Total Fund Balances of Governmental Funds	\$ 23,614,337	\$ 22,039,485	\$ 21,762,867	\$ 20,131,037

Note: In 2011, the City implemented GASB 54 which replaced the categories that previously had been used to classify fund balance. The City did not retroactively apply the provisions of this statement to previous years fund balance date.

Table 3

2014	2013	2012	2011	2010	2009
\$ -	\$ -	\$ -	\$ -	\$ 1,731,056	\$ 686,404
-	-	-	-	7,399,217	9,185,590
143,201	122,927	99,874	220,151	-	-
400,411	281,826	173,015	97,728	-	-
-	-	-	-	-	-
1,421,875	487,201	434,931	1,085,527	-	-
10,554,183	9,714,206	9,379,399	7,511,998	-	-
<u>12,519,670</u>	<u>10,606,160</u>	<u>10,087,219</u>	<u>8,915,404</u>	<u>9,130,273</u>	<u>9,871,994</u>
-	-	-	-	667,682	1,385,265
-	-	-	-	1,328,145	1,075,343
-	-	-	-	-	326,600
-	-	-	-	30,720	30,507
31,241	31,137	31,027	30,869	-	-
666,317	995,269	2,184,855	4,162,423	-	-
(239,078)	-	-	-	-	-
<u>458,480</u>	<u>1,026,406</u>	<u>2,215,882</u>	<u>4,193,292</u>	<u>2,026,547</u>	<u>2,817,715</u>
<u>\$ 12,978,150</u>	<u>\$ 11,632,566</u>	<u>\$ 12,303,101</u>	<u>\$ 13,108,696</u>	<u>\$ 11,156,820</u>	<u>\$ 12,689,709</u>

CITY OF FRIENDSWOOD, TEXAS

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

	2018	2017	2016	2015
Revenues				
Taxes	\$ 27,247,421	\$ 25,509,760	\$ 23,533,294	\$ 22,513,317
Fines and forfeitures	957,671	1,023,556	873,872	907,557
Permits and fees	1,566,656	1,708,357	1,450,939	1,349,264
Intergovernmental	4,398,836	1,763,974	664,427	3,536,980
Investment earnings	313,793	184,127	147,403	77,947
Donations	396,010	434,164	257,724	349,325
Miscellaneous	181,017	165,619	79,435	72,837
Total revenues	35,061,404	30,789,557	27,007,094	28,807,227
Expenditures				
General government	5,440,888	4,975,926	4,385,321	5,343,160
Public safety	16,868,931	14,751,381	12,135,956	11,348,346
Community development and public works	-	-	-	-
Public works	2,157,277	2,160,152	2,118,572	2,066,349
Community development	985,309	893,663	954,103	925,947
Parks and recreation	3,511,146	3,339,864	3,032,979	2,917,857
Library services	1,200,512	1,172,245	1,096,614	1,036,843
Capital outlay	2,615,538	8,429,200	9,332,400	7,255,229
Debt principal payment	2,137,284	1,813,130	1,570,176	1,272,823
Interest and other charges	1,145,400	1,170,958	921,982	776,340
Total expenditures	36,062,285	38,706,519	35,548,103	32,942,894
Excess of revenues over (under) expenditures	(1,000,881)	(7,916,962)	(8,541,009)	(4,135,667)
Other Financing Sources (Uses)				
Sale of capital assets	9,135	12,757	2,743	99
Insurance recoveries	725,304	25,999	19,564	39,257
Issuance of capital related debt	485,305	5,605,000	7,345,000	9,595,000
Issuance of capital lease	-	756,006	-	-
Refunding bonds issued	-	-	-	2,840,000
Payment to refunding escrow agent	-	-	-	(3,058,663)
Premium on issuance of debt	-	435,074	1,484,593	646,746
Transfers in	1,402,989	1,364,399	1,503,442	1,544,662
Transfers out	(47,000)	(5,655)	(182,503)	(318,457)
Total other financing sources (uses)	2,575,733	8,193,580	10,172,839	11,288,644
Net change in fund balances	\$ 1,574,852	\$ 276,618	\$ 1,631,830	\$ 7,152,977
Debt service as a percentage of noncapital expenditures	9.8%	9.9%	9.2%	7.5%

Table 4

2014	2013	2012	2011	2010	2009
\$ 21,335,527	\$ 20,563,848	\$ 19,630,172	\$ 19,592,092	\$ 19,104,625	\$ 18,763,998
860,257	939,380	1,037,880	1,012,592	1,043,126	1,143,102
1,385,898	1,327,918	1,174,013	1,069,845	960,479	966,797
1,791,451	918,641	1,077,890	3,109,645	2,652,037	5,794,303
109,117	87,330	135,483	109,272	90,337	161,106
349,166	363,413	306,119	276,209	280,223	272,911
54,989	84,673	41,410	78,243	81,366	34,448
<u>25,886,405</u>	<u>24,285,203</u>	<u>23,402,967</u>	<u>25,247,898</u>	<u>24,212,193</u>	<u>27,136,665</u>
4,306,143	4,250,320	4,322,631	4,397,858	4,224,384	4,178,062
10,599,575	10,234,811	10,201,010	10,093,964	9,799,372	14,717,404
-	-	-	-	-	3,406,881
1,689,987	2,204,176	1,702,119	1,637,237	1,956,479	-
1,092,982	1,207,264	1,520,401	1,284,188	1,208,899	-
2,772,072	2,675,813	2,622,970	2,472,015	2,458,422	3,439,475
1,083,043	1,002,801	1,004,303	979,978	979,084	-
2,500,254	1,942,746	3,705,622	4,254,582	3,799,303	2,489,845
1,668,692	1,721,983	1,562,088	1,065,865	787,590	787,293
662,718	712,822	899,709	1,064,973	773,744	691,638
<u>26,375,466</u>	<u>25,952,736</u>	<u>27,540,853</u>	<u>27,250,660</u>	<u>25,987,277</u>	<u>29,710,598</u>
(489,061)	(1,667,533)	(4,137,886)	(2,002,762)	(1,775,084)	(2,573,933)
6,325	27,566	9,250	8,992	23,340	-
28,886	48,132	105,502	45,334	50,579	123,707
-	-	8,890,000	3,460,000	-	-
-	147,318	464,270	-	-	1,133,460
-	-	-	5,460,000	-	-
-	-	(9,425,538)	-	-	-
-	-	563,666	317,452	-	-
1,799,344	1,973,106	1,970,819	1,235,892	1,512,987	2,098,405
-	(199,124)	(245,678)	(6,573,032)	(1,344,711)	(1,613,970)
<u>1,834,555</u>	<u>1,996,998</u>	<u>2,332,291</u>	<u>3,954,638</u>	<u>242,195</u>	<u>1,741,602</u>
<u>\$ 1,345,494</u>	<u>\$ 329,465</u>	<u>\$ (1,805,595)</u>	<u>\$ 1,951,876</u>	<u>\$ (1,532,889)</u>	<u>\$ (832,331)</u>
9.8%	10.0%	9.8%	8.4%	7.0%	5.4%

CITY OF FRIENDSWOOD, TEXAS
ASSESSED VALUE AND TAXABLE VALUE OF PROPERTY
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Tax Year	Residential Property	Commercial and Industrial Property	Other Property
2009	2008	\$ 2,443,040,835	\$ 271,618,942	\$ 254,262,180
2010	2009	2,509,894,027	277,693,532	248,910,248
2011	2010	2,547,883,315	276,080,104	235,256,040
2012	2011	2,584,070,993	280,043,373	230,531,859
2013	2012	2,622,105,658	286,288,277	235,960,049
2014	2013	2,695,532,057	294,316,218	238,127,209
2015	2014	2,850,404,776	300,533,643	237,028,723
2016	2015	3,156,205,930	335,006,408	206,365,157
2017	2016	3,546,622,242	320,646,912	230,805,066
2018	2017	3,795,456,220	222,328,923	376,053,145

Source: Galveston Central Appraisal District, Harris County Appraisal District, and City of Friendswood records.

Note: Property in the City of Friendswood is reassessed once every two years on average. (Source: Galveston Central Appraisal District)
Tax rates per \$100 of assessed value.
Residential property includes both single-family and multi-family properties.

Table 5

Total Assessed Value	Less: Exemptions and Tax Exempt Property	Total Taxable Value	Total Direct Tax Rate
\$ 2,968,921,957	\$ 672,410,955	\$ 2,296,511,002	0.57970
3,036,497,807	695,681,434	2,340,816,373	0.57970
3,059,219,459	703,419,784	2,355,799,675	0.58510
3,094,646,225	706,059,683	2,388,586,542	0.59020
3,144,353,984	710,718,423	2,433,635,561	0.59700
3,227,975,484	724,153,848	2,503,821,636	0.59140
3,387,967,142	761,444,427	2,626,522,715	0.59140
3,697,577,495	776,779,458	2,920,798,037	0.56870
4,098,074,220	977,353,948	3,120,720,272	0.05460
4,393,838,288	894,716,055	3,499,122,233	0.05273

CITY OF FRIENDSWOOD, TEXAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEAR
(Unaudited)
(rate per \$100 of assessed value)

Table 6

Fiscal Year Ended September 30,	City Direct Rates			Overlapping Rates					
	General	Debt Service	Total Direct	Friendswood Independent School District	Clear Creek Independent School District	Galveston County Drainage District	Galveston County	Harris County	
2009	\$ 0.5097	\$ 0.0700	\$ 0.5797	\$ 1.3670	\$ 1.3600	\$ 0.1425	\$ 0.5586	\$ 0.62998	
2010	0.4997	0.0800	0.5797	1.3670	1.3600	0.1425	0.6186	0.62998	
2011	0.5198	0.0653	0.5851	1.3670	1.3600	0.1425	0.6198	0.62998	
2012	0.5218	0.0684	0.5902	1.3670	1.3600	0.1400	0.6129	0.62998	
2013	0.5307	0.0663	0.5970	1.3670	1.3600	0.1400	0.5999	0.62998	
2014	0.5303	0.0611	0.5914	1.3670	1.4000	0.1400	0.5837	0.62998	
2015	0.5303	0.0611	0.5914	1.3670	1.4000	0.1350	0.5788	0.62998	
2016	0.4972	0.0715	0.5687	1.3670	1.4000	0.1150	0.5612	0.62998	
2017	0.4620	0.0840	0.5460	1.3870	1.4000	0.1120	0.5462	0.62998	
2018	0.4323	0.0950	0.5273	1.3670	1.4000	0.1080	0.5461	0.62998	

Source: Galveston County Tax Assessor/Collector and City of Friendswood records.

Note: Overlapping rates are those of local and county governments that apply to property owners within the City of Friendswood. Not all overlapping rates apply to all property owners. Overlapping rates for Friendswood Independent School District, Galveston County Consolidated Drainage District and Galveston County apply only to residents whose property is in Galveston County. Overlapping rates for Clear Creek Independent School District and Harris County apply only to residents whose property is in Harris County.

CITY OF FRIENDSWOOD, TEXAS
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)

Table 7

Taxpayer	2018			2009		
	Taxable Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Value	Rank	Percentage of Total City Taxable Assessed Value
Reserve at Autumn Creek LTD	\$ 27,948,267	1	0.80%	\$ -	-	-
Texas-New Mexico Power Co.	19,950,663	2	0.57%	11,519,630	1	0.49%
LSREF3 Bravo Houston LLC	14,619,031	3	0.42%	-	-	-
Kroger Co.	13,014,186	4	0.37%	-	-	-
Autumn Creek Dev LTD	8,052,120	5	0.23%	-	-	-
A-S 108 Friendswood Crossing LP	7,003,420	6	0.20%	-	-	-
Bay Meadows LLP	6,191,643	7	0.18%	-	-	-
H E Butt Grocery Company	6,191,460	8	0.18%	8,731,630	2	0.37%
PS LPT Properties Investors	5,976,000	9	0.17%	-	-	-
FM 528 Bay Area Blvd LP	5,830,305	10	0.17%	-	-	-
Southwestern Bell Telephone Co.	-	-	-	7,874,300	3	0.34%
HCP Friendswood LLC	-	-	-	6,995,240	4	0.30%
Buzbee Family LTD Partnership	-	-	-	6,170,820	5	0.26%
Friendswood Retirement	-	-	-	5,564,197	6	0.24%
MB Friendswood Parkwood	-	-	-	4,638,250	7	0.20%
Kroger Texas L.P.	-	-	-	4,000,010	8	0.17%
Comcast of Houston LLC	-	-	-	3,952,610	9	0.17%
Raton Plaza Shop Cntr Investors LTD	-	-	-	3,800,000	10	0.16%
Total	114,777,095		3.28%	63,246,687		2.71%
All other taxpayers	3,384,345,138		96.72%	2,273,570,490		97.29%
	<u>\$ 3,499,122,233</u>		<u>100.00%</u>	<u>\$ 2,336,817,177</u>		<u>100.00%</u>

Source: Galveston Central Appraisal District and Harris County Appraisal District.

CITY OF FRIENDSWOOD, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Unaudited)

Table 8

Fiscal Year Ended September 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections (adjustments) in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2009	\$ 13,317,911	\$ 13,113,928	99.12%	\$ 193,489	\$ 13,307,417	99.92%
2010	13,553,716	13,395,543	99.36%	144,333	13,539,876	99.90%
2011	13,738,978	13,608,076	99.47%	118,729	13,726,805	99.91%
2012	14,068,660	13,916,558	99.51%	138,999	14,055,557	99.91%
2013	14,454,404	14,361,379	99.63%	79,298	14,440,677	99.91%
2014	14,747,526	14,656,257	99.38%	73,948	14,730,205	99.88%
2015	15,424,948	15,306,943	99.23%	96,294	15,403,237	99.86%
2016	16,431,153	16,264,080	98.98%	146,171	16,410,251	99.87%
2017	16,994,387	16,922,419	99.58%	33,154	16,955,573	99.77%
2018	17,564,995	17,554,220	99.94%	-	17,554,220	99.94%

Source: Galveston County Tax Assessor/Collector and City of Friendswood records.

CITY OF FRIENDSWOOD, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(Unaudited)

Table 9

Fiscal Year	Governmental Activities		Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Capital Leases	General Obligation Bonds	Certificates of Obligation	Water Revenue Bonds			
2009	\$ 15,445,000	\$ 982,518	\$ 865,000	\$ -	\$ 42,260,000	\$ 59,552,518	0.50%	1,582
2010	14,800,000	839,928	-	-	42,045,000	57,684,928	0.47%	1,516
2011	22,885,000	710,023	-	-	35,205,000	58,800,023	0.46%	1,579
2012	21,605,000	975,726	-	-	34,115,000	56,695,726	0.42%	1,498
2013	20,230,000	876,981	-	-	32,995,000	54,101,981	0.37%	1,410
2014	18,815,000	623,407	-	-	31,830,000	51,268,407	0.35%	1,318
2015	24,525,285	360,584	9,875,671	-	24,663,416	59,424,956	0.40%	1,510
2016	31,768,805	180,408	33,238,357	-	6,109,871	71,297,441	0.46%	1,793
2017	36,067,806	668,284	31,160,729	-	5,871,129	73,767,948	0.47%	1,818
2018	34,065,657	791,305	29,028,108	-	5,627,385	69,512,455	0.42%	1,695

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

CITY OF FRIENDSWOOD, TEXAS
RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(Unaudited)

Table 10

Fiscal Year	Population	Taxable Value	General Bonded Debt Outstanding		Net General Bonded Debt	Percentage of Taxable Value Property	Per Capita
			General Obligation Bonds	Less Debt Service Funds			
2009	37,653	\$ 2,296,511,002	\$ 16,438,896	\$ 952,951	\$ 14,492,049	0.63%	\$ 385
2010	38,057	2,340,816,373	14,921,314	545,676	14,254,324	0.61%	375
2011	37,247	2,355,799,675	23,293,294	240,869	22,644,131	0.96%	608
2012	37,839	2,388,586,542	22,402,761	193,714	21,411,286	0.90%	566
2013	38,369	2,433,635,561	20,967,293	134,339	20,095,661	0.83%	524
2014	38,911	2,503,821,636	19,491,826	130,147	18,684,853	0.75%	480
2015	39,458	2,626,522,715	34,400,956	147,193	34,253,763	1.30%	868
2016	39,767	2,920,798,037	65,007,162	159,686	64,847,476	2.22%	1,631
2017	40,570	3,120,720,272	67,228,535	115,152	67,113,383	2.15%	1,654
2018	41,003	3,499,122,233	63,093,765	407,562	62,686,203	1.79%	1,529

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

CITY OF FRIENDSWOOD, TEXAS

Table 11

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF SEPTEMBER 30, 2018
(Unaudited)**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Friendswood Independent School District	\$ 91,510,000	100.00%	\$ 91,510,000
Clear Creek Independent School District	1,027,911,655	2.863%	29,430,139
Galveston County	283,313,256	8.490%	24,053,295
Harris County	3,075,189,000	0.140%	4,311,415
Subtotal, overlapping debt			149,304,849
City direct debt			34,856,962
Total direct and overlapping debt			\$ 184,161,811

Source: Information was obtained from either the governmental unit's website or the finance department of the governmental unit.

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Friendswood. The City's share of the debt of the overlapping governments is based on the ratio of the assessed value of the City's own property to that of each of the other governments. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident--and therefore responsible for repaying the debt--of each overlapping government.

CITY OF FRIENDSWOOD, TEXAS
LEGAL DEBT MARGIN INFORMATION
(UNAUDITED)

Table 12

As a City Council-City Manager form of government, the City of Friendswood is not limited by law in the amount of debt it may issue. The City's charter states:

"In keeping with the Constitution of the State of Texas and not contrary thereto, the City of Friendswood shall have the power to borrow money on the credit of the City for any public purpose not now or hereafter prohibited by the Constitution and laws of the State of Texas, and shall have the right to issue all tax bonds, revenue bonds, funding and refunding bonds, time warrants and other evidence of indebtedness as now authorized or as may hereafter be authorized to be issued by cities and towns by the laws of the State of Texas."

Article 11, Section 5 of the State of Texas Constitution states in part:

"but no tax for any purpose shall ever be lawful for any one year, which shall exceed two and one-half percent of the taxable property of such city"

The tax rate for fiscal year ended September 30, 2018 is \$0.5273 per \$100 of assessed valuation with assessed valuation being 100% of market value.

CITY OF FRIENDSWOOD, TEXAS
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(Unaudited)

Table 13

Fiscal Year	Waterworks and Sewer Revenue Bonds						Coverage
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service			
				Principal	Interest		
2009	\$ 12,028,895	\$ 5,249,388	\$ 6,779,507	\$ 215,000	\$ 1,986,015	3.08	
2010	9,854,083	5,184,330	4,669,753	215,000	1,904,689	2.20	
2011	12,726,936	5,410,497	7,316,439	1,440,000	1,640,437	2.38	
2012	11,258,216	5,361,567	5,896,649	1,090,000	1,589,565	2.20	
2013	11,462,779	6,113,276	5,349,503	1,120,000	1,548,303	2.00	
2014	11,117,391	6,376,510	4,740,881	1,165,000	1,504,006	1.78	
2015	11,020,029	6,220,331	4,799,698	1,205,000	1,153,522	2.04	
2016	11,319,801	6,361,229	4,958,572	-	481,140	10.31	
2017	12,295,441	6,911,675	5,383,766	220,000	184,100	13.32	
2018	12,183,711	7,205,293	4,978,418	225,000	179,250	12.32	

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation or amortization expenses.

CITY OF FRIENDSWOOD, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS
(Unaudited)

Table 14

Calendar Year	Estimated Population	Personal Income	Per Capita Personal Income	Unemployment Rate
2009	37,653	\$ 11,937,436,000	\$ 41,621	6.2%
2010	38,057	12,257,208,000	41,876	7.1%
2011	37,247	12,848,571,000	43,444	6.8%
2012	37,839	13,651,835,000	45,433	5.0%
2013	38,369	14,475,816,000	47,186	4.5%
2014	38,911	14,741,197,000	46,917	3.4%
2015	39,358	14,774,880,000	47,011	3.7%
2016	39,767	15,463,890,000	47,991	4.9%
2017	40,570	15,682,608,000	47,605	4.7%
2018	41,003	16,443,373,000	49,079	4.3%

Sources: Population information was provided from past financial reports. Unemployment rates, personal income and per capita personal income were obtained from the U.S. Department of Labor Bureau of Labor Statistics website or the Texas Workforce Commission website.

CITY OF FRIENDSWOOD, TEXAS
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)

Table 15

<u>Employer</u>	<u>2018</u>		<u>2009</u>	
	<u>Estimated Employees</u>	<u>Percentage of Total City Workforce</u>	<u>Estimated Employees</u>	<u>Percentage of Total City Workforce</u>
Friendswood ISD	745	28.82%	692	28.73%
HEB	307	11.88%	349	14.49%
Kroger	296	11.45%	225	9.34%
Clear Creek ISD	269	10.41% 2	177	7.35% 2
City of Friendswood	240	9.28%	233	9.67%
Friendship Haven Nursing Home	149	5.76%	145	6.02%
McDonalds	78	3.02%	80	3.32%
U.S. Post Office	72	2.79%	64	2.66%
Brookdale	70	2.71%	-	- 1
UTMB	65	2.51%	56	2.32%
Sonic	52	2.01%	62	2.57%
Timber Creek Golf Club	45	1.74%	65	2.70%
Perry & Sons Market and Grille	45	1.74%	42	1.74%
24 Hour Fitness	41	1.59%	-	- 1
Luna's Mexican Restaurant	41	1.59%	-	- 1
AAA Blastcote	35	1.35%	-	- 1
Village on the Park	35	1.35%	40	1.66%
Friendswood Healthcare (Autumn Hills)	-	- 3	70	2.91%
Emeritus	-	- 3	69	2.86%
Gary Greene Realtors	-	- 3	40	1.66%
Total	<u>2,585</u>	<u>100.00%</u>	<u>2,409</u>	<u>100.00%</u>

Source: City Economic Development Division

1 Data was not available for fiscal year 2009.

2 Includes Wedgewood Elementary and Brookside Intermediate.

3 Data was not available for fiscal year 2018.

CITY OF FRIENDSWOOD, TEXAS

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

(Unaudited)

<u>Function/Program</u>	<u>Full-time Equivalent Employees as of September 30</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Government:					
City Attorney	-	-	-	-	-
City Manager	5.50	5.50	5.50	4.65	4.15
City Secretary	5.00	5.00	5.00	5.00	5.00
Administrative Services	27.20	27.20	27.20	28.20	28.20
Public Safety:					
Police	79.40	79.40	80.40	80.40	81.40
Fire marshal and fire	6.10	6.10	6.10	6.10	6.10
Public Works:	-	19.00	19.00	19.33	20.33
Community Development:	-	17.70	17.70	16.89	16.89
Community Development and Public Works:	36.70	-	-	-	-
Community Services:	32.20	18.95	18.95	19.28	19.20
Library	-	14.72	14.72	14.72	14.37
Water:	10.30	10.30	10.30	10.30	9.30
Sewer:	9.00	9.00	9.00	9.00	9.00
Total City Employees:	<u>211.40</u>	<u>212.87</u>	<u>213.87</u>	<u>213.87</u>	<u>213.94</u>

Source: City of Friendswood Budget Documents

Notes: For 2009, public works and community development were combined. In 2010-2018, they are shown as two separate departments.

Beginning in fiscal year 2010, the fulltime equivalent for Library is shown separate from Community Services. In previous years, the fulltime equivalent is included with Community Services.

In-house City Attorney added to staff in fiscal year 2015.

Table 16

2014	2015	2016	2017	2018
-	1.00	1.00	1.00	2.10
4.15	4.55	5.40	5.40	5.40
5.00	5.00	5.00	5.00	5.00
28.70	28.70	27.70	27.70	27.60
82.40	85.72	86.72	88.72	87.72
6.50	6.60	6.60	6.60	6.60
26.33	25.33	29.00	26.00	27.00
10.89	10.89	11.70	11.70	10.70
-	-	-	-	-
19.03	19.63	19.63	20.90	21.90
14.37	14.62	14.62	14.97	14.97
9.30	8.30	8.30	8.30	9.30
9.00	8.00	8.00	11.00	10.00
215.67	218.34	223.67	227.29	228.29

CITY OF FRIENDSWOOD, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)

<u>Function/Program</u>	<u>Fiscal Year</u>			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government:				
Building permits issued	1,189	984	1,222	1,317
Building inspections conducted	6,673	8,744	9,514	10,486
Police:				
Physical arrests	1,794	2,002	1,962	1,885
Parking violations	33	27	82	61
Traffic violations	7,821	7,000	7,291	6,518
Fire Marshal:				
Inspections	1,653	1,509	1,444	1,616
Fire:				
Emergency responses	2,950	2,737	2,818	2,975
Fires extinguished	102	110	108	86
Parks and Recreation:				
Recreation participants	12,283	13,792	13,894	16,068
Facility reservations	1,727	1,451	503	493
Library:				
Volumes in collection	94,512	99,880	97,622	125,251
Total volumes borrowed	350,892	356,787	349,223	355,447
Water:				
New connections	46	160	173	185
Water main breaks	73	64	516	112
Average daily consumption (thousands of gallons)	4,209	3,408	6,406	4,584
Peak daily consumption	7,187	7,606	13,698	10,896
Sewer:				
Average daily sewage treatment (thousands of gallons)	2,950	3,465	2,787	2,968
Maximum daily flow (thousands of gallons)	9,537	11,393	10,833	10,777

Source: Various City departments and prior year CAFRs

Table 17

2013	2014	2015	2016	2017	2018
1,469	1,395	1,377	1,865	2,177	2,788
11,470	10,611	12,145	11,026	12,134	14,157
1,601	1,596	1,479	1,464	903	1,145
107	58	63	44	61	15
5,718	5,815	4,540	5,001	3,669	6,785
1,673	1,427	1,512	1,354	1,233	1,139
2,993	3,261	3,258	3,303	3,599	3,720
86	116	78	76	75	80
18,607	15,178	16,153	21,369	20,556	18,299
686	728	1,443	1,444	1,004	2,123
133,865	141,383	133,165	147,726	100,678	102,852
367,948	367,452	350,145	301,158	341,048	348,554
189	193	-	183	137	125
193	149	57	46	44	116
5,577	5,171	4,970	4,963	5,282	5,455
11,505	9,917	12,623	10,472	10,110	9,475
2,956	2,867	3,306	3,382	3,286	3,117
10,401	10,770	11,237	12,188	12,766	10,370

CITY OF FRIENDSWOOD, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)

<u>Function/Program</u>	<u>Fiscal Year</u>			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Police				
Stations	1	1	1	1
Patrol units	24	26	26	25
Fire				
Stations	4	4	4	4
Public Works				
Streets - paved (miles)	160	161	162	164
Streets - unpaved (miles)	2	2	2	2
Traffic signals	3	3	3	3
Parks and Recreation				
Acreage	189	189	189	189
Parks	8	8	8	8
Swimming pool	1	1	1	1
Tennis courts	4	4	4	4
Library	1	1	1	1
Water				
Water mains (miles)	181	183	184	186
Fire hydrants	1,275	1,305	1,324	1,588
Connections	12,057	12,231	12,476	12,711
Storage capacity (thousands of gallons)	5,993	5,993	7,500	7,500
Sewer				
Sanitary sewers (miles)	156	158	159	162
Connections	11,256	11,404	11,563	11,828
Storm sewers (miles)	96	98	99	100
Treatment capacity (thousands of gallons)	4,850	4,850	4,850	4,850

Source: Various City departments and prior year CAFRs.

Table 18

2013	2014	2015	2016	2017	2018
1	1	1	1	1	1
26	27	29	31	32	34
4	4	4	4	4	4
165	167	169	172	174	176
2	2	2	2	2	2
3	3	3	3	3	3
189	189	232	266	266	266
8	8	8	9	9	9
1	1	1	1	1	1
4	4	4	4	4	4
1	1	1	1	1	1
187	207	209	212	214	216
1,608	1,610	1,631	1,672	1,690	1,707
12,929	13,093	13,289	13,482	13,619	13,744
7,500	8,000	8,100	7,850	7,850	7,850
163	194	195	198	200	202
12,072	12,236	12,407	12,378	12,588	12,721
100	105	106	109	110	112
4,850	12,000	9,250	9,250	9,250	9,250



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