

ANNUAL FINANCIAL REPORT

of the

**CITY OF
JACINTO CITY, TEXAS**

For the Year Ended
September 30, 2015

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CITY OF JACINTO CITY, TEXAS

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September 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Jacinto City, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Jacinto City, Texas (the "City") as of and for the year ended September 30, 2015, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of September 30, 2015, 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 Matter

Change in Accounting Principle

In 2015, the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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, budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of contributions, and schedule of funding progress, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 individual fund schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The individual fund schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 10, 2016

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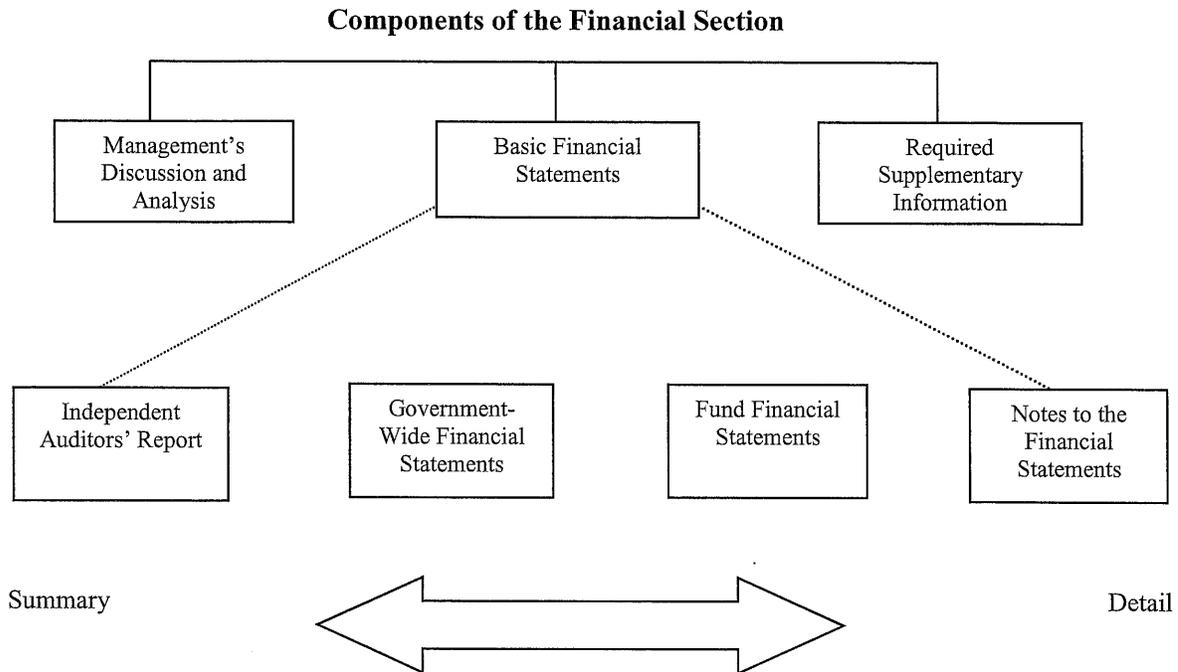
***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2015

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Jacinto City (the "City") for the year ending September 30, 2015. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide 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, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. 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.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

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.

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here, including public safety (police, fire, EMS), community services (building permits/inspection), public works, and general government (City Administrator, City Secretary, Finance, Human Resources, Information Technology). Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water, wastewater, and sanitation services.

The government-wide financial statements can be found after the MD&A within this report.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

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

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

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, which are considered to be major funds for reporting purposes.

The City adopts annual appropriated budgets for its general fund and debt service fund. Budgetary comparison schedules have been provided for the general fund and the debt service fund to demonstrate compliance with these budgets.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Proprietary Funds

The City maintains one type of proprietary fund. The enterprise fund is 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 water distribution and wastewater collection/treatment operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to 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 and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund, schedule of changes in net pension liability and related ratios for the Texas Municipal Retirement System (TMRS), schedule of contributions for TMRS, and schedule of funding progress for post employment healthcare benefits. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$28,124,711 as of year end. This compares with \$28,009,418 from the prior fiscal year. The largest portion of the City's net position, 64 percent, reflects its investments in capital assets (e.g., land, City hall, police station, fleet equipment, drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the assets themselves cannot be used to liquidate these liabilities.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Statement of Net Position:

The following table provides a condensed Statement of Net Position:

	2015				2014			
	Governmental Activities	Business-Type Activities	Reconciliation	Total	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 11,017,264	\$ 1,334,388	\$ -	\$ 12,351,652	\$ 10,651,030	\$ 1,549,758	\$ -	\$ 12,200,788
Capital assets, net	5,078,443	15,898,803	-	20,977,246	5,094,560	16,133,315	-	21,227,875
Total Assets	<u>16,095,707</u>	<u>17,233,191</u>	<u>-</u>	<u>33,328,898</u>	<u>15,745,590</u>	<u>17,683,073</u>	<u>-</u>	<u>33,428,663</u>
Deferred outflows - pensions	169,655	52,980	-	222,635	115,163	35,963	-	151,126
Deferred charge on refunding	27,820	-	-	27,820	31,794	-	-	31,794
Total Deferred Outflows of Resources	<u>197,475</u>	<u>52,980</u>	<u>-</u>	<u>250,455</u>	<u>146,957</u>	<u>35,963</u>	<u>-</u>	<u>182,920</u>
Long-term liabilities	4,296,599	314,523	-	4,611,122	4,728,890	357,419	-	5,086,309
Other liabilities	392,020	297,704	-	689,724	298,025	217,831	-	515,856
Total Liabilities	<u>4,688,619</u>	<u>612,227</u>	<u>-</u>	<u>5,300,846</u>	<u>5,026,915</u>	<u>575,250</u>	<u>-</u>	<u>5,602,165</u>
Deferred inflows - pensions	117,197	36,599	-	153,796	-	-	-	-
Total Deferred Inflows of Resources	<u>117,197</u>	<u>36,599</u>	<u>-</u>	<u>153,796</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net investment in capital assets	5,046,392	15,898,803	(3,045,000)	17,900,195	5,107,126	16,114,392	(3,435,000)	17,786,518
Restricted	663,120	-	-	663,120	599,094	-	-	599,094
Unrestricted	5,777,854	738,542	3,045,000	9,561,396	5,159,412	1,029,394	3,435,000	9,623,806
Total Net Position	<u>\$ 11,487,366</u>	<u>\$ 16,637,345</u>	<u>-</u>	<u>\$ 28,124,711</u>	<u>\$ 10,865,632</u>	<u>\$ 17,143,786</u>	<u>-</u>	<u>\$ 28,009,418</u>

A portion of the primary government's net position, two percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$9,561,396, may be used to meet the City's ongoing obligation to citizens and creditors.

The City has historically issued and repaid debt in its governmental activities for which the proceeds were used to purchase capital assets for the business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities in the amount of \$3,045,000 is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

As of September 30, 2015, the City reported deferred outflows and inflows of resources related to its pension plan of \$222,635 and \$153,796, respectively. These line items are new to the presentation of the Statement of Net Position in the current year. In addition, the City reported a net pension liability of \$979,248, which is part of the \$4,611,122 reported in long-term liabilities. This change is attributed to the implementation of GASB 68, as discussed in the notes to the financial statements.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Statement of Activities:

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

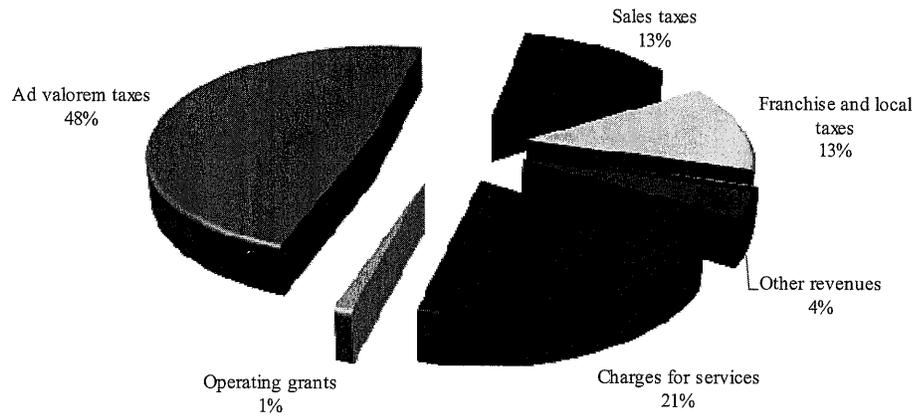
	2015			2014		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,196,194	\$ 2,729,712	\$ 3,925,906	\$ 1,245,514	\$ 2,678,317	\$ 3,923,831
Operating grants	63,606	-	63,606	79,326	-	79,326
Capital grants	-	16,032	16,032	-	755,946	755,946
General revenues:						
Ad valorem taxes	2,776,788	-	2,776,788	2,967,653	-	2,967,653
Sales taxes	753,866	-	753,866	713,398	-	713,398
Franchise and local taxes	753,396	-	753,396	764,875	-	764,875
Investment income	9,913	180	10,093	5,659	322	5,981
Other revenues	221,748	-	221,748	222,625	-	222,625
Total Revenues	5,775,511	2,745,924	8,521,435	5,999,050	3,434,585	9,433,635
Expenses						
General government	854,033	-	854,033	550,679	-	550,679
Public safety	2,838,625	-	2,838,625	2,774,324	-	2,774,324
Public works	749,601	-	749,601	934,256	-	934,256
Community services	638,537	-	638,537	835,477	-	835,477
Interest and fees on debt	75,671	-	75,671	89,755	-	89,755
Public utilities	-	3,249,675	3,249,675	-	3,250,112	3,250,112
Total Expenses	5,156,467	3,249,675	8,406,142	5,184,491	3,250,112	8,434,603
Increase (Decrease) in Net Position Before Transfers	619,044	(503,751)	115,293	814,559	184,473	999,032
Transfers	2,690	(2,690)	-	2,286	(2,286)	-
Change in Net Position	621,734	(506,441)	115,293	816,845	182,187	999,032
Beginning net position	10,865,632	17,143,786	28,009,418	10,048,787	16,961,599	27,010,386
Ending Net Position	\$ 11,487,366	\$ 16,637,345	\$ 28,124,711	\$ 10,865,632	\$ 17,143,786	\$ 28,009,418

The City's net position increased by \$115,293 during the current fiscal year. This net change can be attributed to several factors. Total revenues decreased by \$912,200 primarily due to a decrease in capital grants related to the GLO grant. Total expenses decreased by \$28,461 due to decreases in public works and community service expenses, offset by an increase in general government expenses.

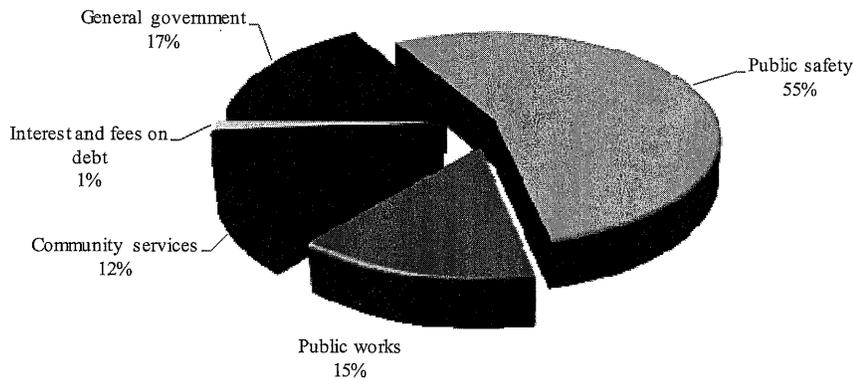
CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

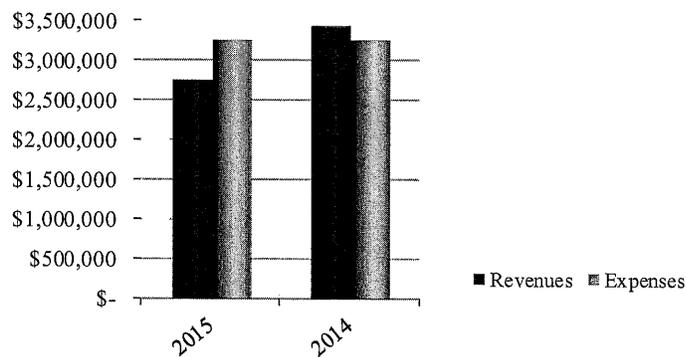
GOVERNMENTAL REVENUES



GOVERNMENTAL EXPENSES



**BUSINESS-TYPE ACTIVITIES
REVENUES AND EXPENSES**



CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Total revenues for the governmental activities decreased by four percent when compared to the previous year. This decrease is attributable to a decrease in charges for services and property tax revenue. The decrease in charges for services can be attributed to a decrease in ambulance billing. Property tax revenue decreased due to less collections in the current year. Expenses decreased one percent compared to the previous year as a result of decreased spending for public works and community services. The decrease in public works expenses is related to a decrease in depreciation expense for this function. The decrease in community services is attributed to higher capitalized costs during the current year.

Overall, business-type activity revenues decreased by \$688,661 when compared to the previous year. This decrease in revenue is largely attributable to capital grant revenue the City received for various construction projects that were completed in the prior year, including water delivery, Market Street water plant rehabilitation, and wastewater treatment plant upgrades. Expenses decreased \$437, which was comparable to the prior year.

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, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The City's governmental funds reflect a combined fund balance of \$10,021,581. Of this, \$663,120 is restricted for various purposes. There was an increase in the combined fund balance of \$384,913 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$9,358,461. 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 183 percent of the total general fund expenditures, while total fund balance represents 195 percent of that same amount.

The fund balance in the general fund increased by \$43,670 for a total of \$9,967,558 at year end due to an increase in sales tax and fines and forfeitures revenue, offset by an increase in transfers out.

The fund balance of the debt service fund increased by \$341,243. This increase is attributed to an increase in property tax revenue, as well as an increase in transfers from the general fund. The ending fund balance of the debt service fund was \$54,023 as of year end.

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.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City had a total positive net budget variance of \$237,387 for the general fund. Total actual revenues were more than budgeted revenues by \$274,496. Actual expenditures were \$154,829 less than budgeted expenditures.

CAPITAL ASSETS

At the end of the year, the City's governmental activities and business-type activities had invested \$5,078,443 and \$15,898,803, respectively, in a variety of capital assets and infrastructure (net of accumulated depreciation).

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

The significant capital asset acquisitions during the current year included the following:

- Waterline construction: \$155,888
- Police department post-fire rebuild: \$72,532
- Police patrol vehicles: \$66,025

More detailed information about the City's capital assets is presented in note III.C. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had general obligation debt of \$3,045,000 and capital leases of \$59,871.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's budgeted expenditures for fiscal year 2016 total \$9,049,402 in the general fund and \$488,500 in the debt service fund. The City Council adopted a 2015 tax rate of \$0.783554 per \$100 valuation.

The City continues to face challenges normal for a city environment and is seeking to provide the best services possible to its residents.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the finances of the City. Questions concerning this report or requests for additional financial information should be directed to Lon Squyres, City Manager, City of Jacinto City, 1301 Mercury Street, Jacinto City, Texas, 77029.

BASIC FINANCIAL STATEMENTS

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CITY OF JACINTO CITY, TEXAS

STATEMENT OF NET POSITION

September 30, 2015

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<u>Assets</u>				
Current assets:				
Cash - unrestricted	\$ 7,644,951	\$ 529,056	\$ -	\$ 8,174,007
Investments	2,499,698	506,286	-	3,005,984
Receivables, net	844,641	260,881	-	1,105,522
Internal balances	(38,165)	38,165	-	-
Cash - restricted	66,139	-	-	66,139
	11,017,264	1,334,388	-	12,351,652
Capital assets:				
Non-depreciable	37,084	7,953	-	45,037
Net depreciable capital assets	5,041,359	15,890,850	-	20,932,209
	5,078,443	15,898,803	-	20,977,246
Total Assets	16,095,707	17,233,191	-	33,328,898
<u>Deferred Outflows of Resources</u>				
Deferred outflows - pensions	169,655	52,980	-	222,635
Deferred charge on refunding	27,820	-	-	27,820
Total Deferred Outflows of Resources	197,475	52,980	-	250,455
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	392,020	99,148	-	491,168
Customer deposits	-	198,556	-	198,556
	392,020	297,704	-	689,724
Noncurrent liabilities:				
Due within one year	477,585	5,189	-	482,774
Due in more than one year	3,819,014	309,334	-	4,128,348
	4,296,599	314,523	-	4,611,122
Total Liabilities	4,688,619	612,227	-	5,300,846
<u>Deferred Inflows of Resources</u>				
Deferred inflows - pensions	117,197	36,599	-	153,796
<u>Net Position</u>				
Net investment in capital assets	5,046,392	15,898,803	(3,045,000)	17,900,195
Restricted for:				
Child safety	178,035	-	-	178,035
Debt service	54,023	-	-	54,023
Court technology	211,172	-	-	211,172
Donate a brick program	606	-	-	606
Police equipment	126,094	-	-	126,094
Governmental programming	93,190	-	-	93,190
Unrestricted	5,777,854	738,542	3,045,000	9,561,396
Total Net Position	\$ 11,487,366	\$ 16,637,345	\$ -	\$ 28,124,711

See Notes to Financial Statements.

CITY OF JACINTO CITY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 854,033	\$ -	\$ -	\$ -
Public safety	2,838,625	1,127,446	-	-
Public works	749,601	68,748	-	-
Community services	638,537	-	63,606	-
Interest and fees on debt	75,671	-	-	-
Total Governmental Activities	5,156,467	1,196,194	63,606	-
Business-Type Activities				
Public utilities	3,249,675	2,729,712	-	16,032
Total Business-Type Activities	3,249,675	2,729,712	-	16,032
Total Primary Government	\$ 8,406,142	\$ 3,925,906	\$ 63,606	\$ 16,032

General Revenues:

- Taxes
 - Ad valorem taxes
 - Sales taxes
 - Franchise and local taxes
- Investment income
- Other revenues
- Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (854,033)	\$ -	\$ (854,033)
(1,711,179)	-	(1,711,179)
(680,853)	-	(680,853)
(574,931)	-	(574,931)
(75,671)	-	(75,671)
<u>(3,896,667)</u>	<u>-</u>	<u>(3,896,667)</u>
-	(503,931)	(503,931)
-	(503,931)	(503,931)
<u>(3,896,667)</u>	<u>(503,931)</u>	<u>(4,400,598)</u>
2,776,788	-	2,776,788
753,866	-	753,866
753,396	-	753,396
9,913	180	10,093
221,748	-	221,748
2,690	(2,690)	-
<u>4,518,401</u>	<u>(2,510)</u>	<u>4,515,891</u>
621,734	(506,441)	115,293
10,865,632	17,143,786	28,009,418
<u>\$ 11,487,366</u>	<u>\$ 16,637,345</u>	<u>\$ 28,124,711</u>

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CITY OF JACINTO CITY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2015

	General	Debt Service	Total Governmental Funds
<u>Assets</u>			
Cash - unrestricted	\$ 6,830,881	\$ 814,070	\$ 7,644,951
Investments	2,499,698	-	2,499,698
Receivables, net	767,850	76,791	844,641
Cash - restricted	66,139	-	66,139
Due from other funds	760,076	-	760,076
Total Assets	\$ 10,924,644	\$ 890,861	\$ 11,815,505
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 357,655	\$ -	\$ 357,655
Due to other funds	38,165	760,076	798,241
Total Liabilities	395,820	760,076	1,155,896
<u>Deferred Inflows of Resources</u>			
Unavailable revenue - EMS services	214,415	-	214,415
Unavailable revenue - property taxes	346,851	76,762	423,613
Total Deferred Inflows of Resources	561,266	76,762	638,028
<u>Fund Balances</u>			
Restricted			
Child safety	178,035	-	178,035
Debt service	-	54,023	54,023
Court technology	211,172	-	211,172
Donate a brick program	606	-	606
Police equipment	126,094	-	126,094
Governmental programming	93,190	-	93,190
Unassigned	9,358,461	-	9,358,461
Total Fund Balances	9,967,558	54,023	10,021,581
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 10,924,644	\$ 890,861	
Adjustments for the Statement of Net Position:			
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.			
Capital assets - non-depreciable			37,084
Capital assets - net depreciable			5,041,359
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			
			638,028
Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.			
Accrued interest payable			(34,365)
Deferred charge on refunding			27,820
Deferred outflows - pensions			169,655
Deferred inflows - pensions			(117,197)
Non-current liabilities due within one year			(477,585)
Non-current liabilities due in more than one year			(3,819,014)
Net Position of Governmental Activities			\$ 11,487,366

See Notes to Financial Statements.

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CITY OF JACINTO CITY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2015

	General	Debt Service	Total Governmental Funds
Revenues			
Ad valorem taxes	\$ 2,278,804	\$ 526,149	\$ 2,804,953
Sales taxes	753,866	-	753,866
Franchise and local taxes	753,396	-	753,396
Licenses and permits	68,748	-	68,748
Fines and forfeitures	896,243	-	896,243
Charges for services	318,934	-	318,934
Intergovernmental	63,606	-	63,606
Investment income	9,839	74	9,913
Other revenue	212,648	9,100	221,748
Total Revenues	5,356,084	535,323	5,891,407
Expenditures			
Current:			
General government	718,201	-	718,201
Public safety	2,863,859	-	2,863,859
Public works	780,668	-	780,668
Community services	704,551	-	704,551
Debt service:			
Principal	51,949	390,000	441,949
Interest and fiscal charges	1,248	91,300	92,548
Total Expenditures	5,120,476	481,300	5,601,776
Excess of Revenues Over Expenditures	235,608	54,023	289,631
Other Financing Sources (Uses)			
Transfers in	2,690	287,220	289,910
Transfers (out)	(287,220)	-	(287,220)
Capital lease	92,592	-	92,592
Total Other Financing Sources	(191,938)	287,220	95,282
Net Change in Fund Balances	43,670	341,243	384,913
Beginning fund balances	9,923,888	(287,220)	9,636,668
Ending Fund Balances	\$ 9,967,558	\$ 54,023	\$ 10,021,581

See Notes to Financial Statements.

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CITY OF JACINTO CITY, 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, 2015

Net changes in fund balances - total governmental funds \$ 384,913

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	329,082
Depreciation expense	(345,199)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred property tax revenue	(28,165)
Deferred emergency services revenue	(87,731)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal expenditures	390,000
Loss on refunding	(3,974)
Amortization of premium	17,629
Capital lease proceeds	(92,592)
Capital lease payments	51,949

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(1,407)
Net pension liability	115,762
Net OPEB obligation	(49,050)
Change in deferred outflows - pension	54,492
Change in deferred inflows - pension	(117,197)
Accrued interest payable	3,222

Change in Net Position of Governmental Activities	\$ 621,734
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See Notes to Financial Statements.

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CITY OF JACINTO CITY, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2015

	<u>Enterprise</u>
<u>Assets</u>	
Current Assets	
Cash, unrestricted	\$ 529,056
Investments	506,286
Receivables, net	260,881
Due from other funds	38,165
Total Current Assets	<u>1,334,388</u>
Noncurrent Assets	
Capital assets:	
Non-depreciable	7,953
Net depreciable capital assets	15,890,850
Total Noncurrent Assets	<u>15,898,803</u>
Total Assets	<u>17,233,191</u>
 <u>Deferred Outflows of Resources</u>	
Deferred outflows - pensions	<u>52,980</u>
 <u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued liabilities	99,148
Customer deposits	198,556
Total Current Liabilities	<u>297,704</u>
 Noncurrent Liabilities	
Due within one year	5,189
Due in more than one year	309,334
Total Noncurrent Liabilities	<u>314,523</u>
Total Liabilities	<u>612,227</u>
 <u>Deferred Inflows of Resources</u>	
Deferred inflows - pension	<u>36,599</u>
 <u>Net Position</u>	
Net investment in capital assets	15,898,803
Unrestricted	738,542
Total Net Position	<u>\$ 16,637,345</u>

See Notes to Financial Statements.

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CITY OF JACINTO CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended September 30, 2015

	Enterprise
<u>Operating Revenues</u>	
Water charges	\$ 1,609,376
Sewer charges	742,843
Sanitation	285,662
Other services	91,831
Total Operating Revenues	2,729,712
 <u>Operating Expenses</u>	
Costs of sales and services	2,164,589
Administration	643,474
Depreciation	440,800
Total Operating Expenses	3,248,863
Operating (Loss)	(519,151)
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	180
Interest expense	(812)
Intergovernmental revenue	16,032
Total Nonoperating Revenues	15,400
(Loss) Before Transfers	(503,751)
Transfers (net)	(2,690)
Change in Net Position	(506,441)
Beginning net position	17,143,786
Ending Net Position	\$ 16,637,345

See Notes to Financial Statements.

CITY OF JACINTO CITY, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 1 of 2) For the Year Ended September 30, 2015

	<u>Enterprise</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,719,310
Payments to suppliers	(2,113,021)
Payments to employees	(647,865)
Net Cash (Used) by Operating Activities	<u>(41,576)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Intergovernmental revenue	16,032
Net transfer from and to other funds	(2,690)
Net Cash Provided by Noncapital Financing Activities	<u>13,342</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(206,288)
Principal paid on capital lease	(18,923)
Interest paid on capital debt	(812)
Net Cash (Used) by Capital and Related Financing Activities	<u>(226,023)</u>
<u>Cash Flows from Investing Activities</u>	
Purchase of investments	249,761
Interest on investments	180
Net Cash Provided by Investing Activities	<u>249,941</u>
Net (Decrease) in Cash and Cash Equivalents	(4,316)
Beginning cash and cash equivalents	<u>533,372</u>
Ending Cash and Cash Equivalents	<u><u>\$ 529,056</u></u>

CITY OF JACINTO CITY, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 2 of 2)

For the Year Ended September 30, 2015

	<u>Enterprise</u>
Reconciliation of Operating Income (Loss)	
to Net Cash Provided (Used) by Operating Activities	
Operating (loss)	\$ (519,151)
Adjustments to Reconcile Operating	
(Loss) to Net Cash (Used)	
by Operating Activities:	
Depreciation	440,800
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Current Assets:	
Accounts receivable	(13,972)
Due from other funds	(24,735)
Deferred outflows	(17,017)
Increase (Decrease) in Current Liabilities:	
Accounts payable and accrued liabilities	76,303
Customer deposits	3,570
Compensated absences	167
Net pension liability	(36,151)
OPEB obligation	12,011
Deferred inflows	36,599
Net Cash (Used) by Operating Activities	<u><u>\$ (41,576)</u></u>

See Notes to Financial Statements.

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CITY OF JACINTO CITY, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Jacinto City, Texas (the “City”) was incorporated under the laws of the State of Texas in 1946. The City has operated under a “Home Rule Charter” which provides for a “Council-Manager” form of government since January 17, 1981.

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 appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety including police, fire, and emergency medical services; parks; streets; sanitation; water and sewer services; recreation; public improvements; and general administration.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic 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. No other entities have been included in the City’s reporting entity. 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.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City’s financial reporting entity are based on criteria prescribed by generally 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 fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

B. Government-Wide 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. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental funds:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales and franchise taxes, fines and forfeitures, as well as licenses and permits. Expenditures include general government, public safety, public works, and community services. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The City reports the following enterprise fund:

The *enterprise fund* is used to account for and report the operations that provide water, sewer, and sanitation services. These services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and sewer fund is considered a major fund for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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

1. Cash and Cash Equivalents

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. For the purpose of the statement of cash flows, the proprietary fund type considers temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools and commercial paper

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

Certain payments to vendors reflecting costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Useful Life</u>
Vehicles	10 to 15 years
Equipment	5 to 25 years
Infrastructure	10 to 60 years
Improvements other than buildings	10 to 25 years
Buildings	10 to 40 years

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position 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 three items that qualify for reporting in this category on the government-wide Statement of Net Position. A deferred charge 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 charges have been recognized as a result of the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized as a result of differences between the actuarial expectations and the actual economic experience related to the City's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and emergency medical service revenue. These amount are deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Compensated Employee Absences

Employees earn vacation time based on years of service with the City, up to a maximum of 25 days per year. Employees must take vacation time during the year it is earned.

Sick leave accrues on the basis of one day per month of employment. Employees are granted sick pay only for actual sick time. Effective January 1, 1992, employees are no longer paid for unused

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

sick time upon termination. However, employees who have unused sick time which accumulated prior to January 1, 1992 may be paid for any of this unused sick time when their employment with the City terminates. The estimated amount that will be paid as compensation for services provided is recorded as a liability in the Statement of Net Position. All eligible time is accrued when incurred in the government-wide and proprietary fund financial statements.

7. Long-Term Obligations

In government-wide financial statement and proprietary fund type 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. Bonds payable are reported net of applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund. Although a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

Assets acquired under the terms of a capital lease are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

8. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

12. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period 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.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. The interest continues to accumulate on the account at one percent per month, but the penalty remains at a maximum of 12 percent until paid.

A penalty of six percent and interest of one percent are added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12 percent on July 1 of each year, with interest continuing to increase at one percent per month until the account is paid. An additional penalty of 20 percent is added in July for attorney costs. There are no discounts allowed on taxes.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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 enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except the capital project funds, which adopted project length budgets. The original budget is adopted by the City Council prior to the beginning of the fiscal year. The legal level of control as defined by the charter is the department in the approved budget. The City Manager may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made during the year.

A. Expenditures in Excess of Appropriations

At September 30, 2015, the general fund reported expenditures in excess of appropriations related to transfers out in the amount of \$287,220.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and temporary investments include petty cash on hand in various departments, certificates of deposit, and demand deposit accounts. As of year end, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 3,005,984	0.30

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 180 days or less.

Credit risk. State law and the City’s investment policy limit investments to obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent.

Concentration of credit risk. With the exception of U.S. Treasury securities and authorized pools, the City’s investment policy does not allow for an investment in any one issuer that is in excess of 50 percent of the portfolio’s total investments.

Custodial credit risk – deposits. 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 to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of September 30, 2015, market values of pledged securities and FDIC insurance exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

B. Receivables

The following comprise receivable balances at year end:

	General	Debt Service	Enterprise	Total
Accounts	\$ -	\$ -	\$ 489,299	\$ 489,299
Ad valorem	351,513	79,705	-	431,218
Sales taxes	126,914	-	-	126,914
Other	310,537	29	-	310,566
Less allowance	(21,114)	(2,943)	(228,418)	(252,475)
Totals	\$ 767,850	\$ 76,791	\$ 260,881	\$ 1,105,522

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

C. Capital Assets

A summary of changes in capital assets for the year end is as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 37,084	\$ -	\$ -	\$ 37,084
Total capital assets, not being depreciated	<u>37,084</u>	<u>-</u>	<u>-</u>	<u>37,084</u>
Capital assets, being depreciated:				
Buildings	6,282,023	91,276	-	6,373,299
Improvements other than buildings	482,134	16,939	-	499,073
Infrastructure	2,507,695	92,829	-	2,600,524
Equipment	1,158,642	20,445	-	1,179,087
Vehicles	1,844,959	107,593	-	1,952,552
Total capital assets being depreciated	<u>12,275,453</u>	<u>329,082</u>	<u>-</u>	<u>12,604,535</u>
Less accumulated depreciation for:				
Buildings	(2,500,736)	(160,842)	-	(2,661,578)
Improvements other than buildings	(358,183)	(17,743)	-	(375,926)
Infrastructure	(1,915,049)	(13,409)	-	(1,928,458)
Equipment	(1,017,151)	(45,781)	-	(1,062,932)
Vehicles	(1,426,858)	(107,424)	-	(1,534,282)
Total accumulated depreciation	<u>(7,217,977)</u>	<u>(345,199)</u>	<u>-</u>	<u>(7,563,176)</u>
Total capital assets, being depreciated, net	<u>5,057,476</u>	<u>(16,117)</u>	<u>-</u>	<u>5,041,359</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,094,560</u>	<u>\$ (16,117)</u>	<u>\$ -</u>	<u>5,078,443</u>
			Less associated debt	(59,871)
			Plus deferred charge on refunding	27,820
			Net Investment in Capital Assets	<u>\$ 5,046,392</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 138,436
Public safety	144,376
Public works	62,387
Total Governmental Activities Depreciation Expense	<u>\$ 345,199</u>

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

The following is a summary of changes in capital assets for business-type activities for the year end:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 7,953	\$ -	\$ -	\$ 7,953
Total capital assets, not being depreciated	<u>7,953</u>	<u>-</u>	<u>-</u>	<u>7,953</u>
Capital assets, being depreciated:				
Infrastructure	20,953,120	206,288	-	21,159,408
Equipment	142,555	-	-	142,555
Vehicles	233,650	-	-	233,650
Total capital assets being depreciated	<u>21,329,325</u>	<u>206,288</u>	<u>-</u>	<u>21,535,613</u>
Less accumulated depreciation for:				
Infrastructure	(4,888,876)	(428,843)	-	(5,317,719)
Equipment	(129,075)	(4,504)	-	(133,579)
Vehicles	(186,012)	(7,453)	-	(193,465)
Total accumulated depreciation	<u>(5,203,963)</u>	<u>(440,800)</u>	<u>-</u>	<u>(5,644,763)</u>
Total capital assets, being depreciated, net	<u>16,125,362</u>	<u>(234,512)</u>	<u>-</u>	<u>15,890,850</u>
Business-Type Activities Capital Assets, Net	<u>\$ 16,133,315</u>	<u>\$ (234,512)</u>	<u>\$ -</u>	<u>15,898,803</u>
		Net Investment in Capital Assets		<u>\$ 15,898,803</u>

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

D. Long-Term Debt

The following is a summary of changes in the City's total long-term liabilities for the year end. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

Governmental Activities:	Beginning Balance**	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 3,435,000	\$ -	\$ 390,000	\$ 3,045,000	\$ 405,000
Capital leases	19,228	92,592	51,949	59,871 *	29,043
Compensated absences	46,973	1,407	-	48,380	43,542
Net pension liability	861,980	-	115,762	746,218	-
OPEB obligation	224,678	49,050	-	273,728	-
Premium on debt	141,031	-	17,629	123,402	-
Total Governmental Activities	\$ 4,728,890	\$ 143,049	\$ 575,340	\$ 4,296,599	\$ 477,585

Long-term liabilities due in more than one year \$ 3,819,014

* Debt associated with capital assets \$ 59,871

Business-Type Activities:	Beginning Balance**	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	\$ 18,923	\$ -	\$ 18,923	\$ -	\$ -
Compensated absences	5,599	167	-	5,766	5,189
Net pension liability	269,181	-	36,151	233,030	-
OPEB obligation	63,716	12,011	-	75,727	-
Total Business-Type Activities	\$ 357,419	\$ 12,178	\$ 55,074	\$ 314,523	\$ 5,189

Long-term liabilities due in more than one year \$ 309,334

**Beginning balances have been restated.

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

General obligation debt and capital leases at year end were comprised of the following debt issues:

Description	Interest Rates	Balance
Governmental Activities		
General obligation debt:		
Refunding, Series 2013	2.00-3.00%	\$ 3,045,000
Capital leases	6.00-6.50%	59,871
Total Governmental Activities		\$ 3,104,871

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

The annual requirements to amortize general obligation debt outstanding at year end were as follows:

Year Ending Sept. 30	General Obligation Debt	
	Principal	Interest
2016	\$ 405,000	\$ 83,200
2017	410,000	75,100
2018	420,000	66,900
2019	435,000	54,300
2020	450,000	41,250
2021-2023	925,000	41,850
Total	\$ 3,045,000	\$ 362,600

The City is not obligated in any manner for special assessment debt.

Future minimum payments to retire capital lease obligations for governmental activities is as follows:

Year Ending Sept. 30	Governmental Activities	
	Principal	Interest
2016	\$ 29,043	\$ 3,678
2017	30,828	1,894
Total	\$ 59,871	\$ 5,572

The assets acquired through capital leases are as follows:

Asset	Amount
Police vehicles	\$ 195,122
Dump truck	59,292
Excavator	28,361
Water utility truck	98,138
Recreation dept truck	26,566
Less: accumulated depreciation	(170,963)
Total	\$ 236,516

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, they could result in a substantial liability to the City. Although the City does not anticipate that it will have any arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

E. Interfund Transactions

Transfers between the primary government funds during the 2015 fiscal year were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amounts</u>
General fund	Water and sewer fund	\$ 2,690
Debt service fund	General fund	287,220
		<u>\$ 289,910</u>

The compositions of interfund balances as of year end were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General fund	Debt service fund	\$ 760,076
Water and sewer fund	General	38,165
		<u>\$ 798,241</u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

F. Restatement of Net Position

The City implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, the City has restated beginning net position to account for a net pension liability as of the initial measurement date, December 31, 2013. In addition, the City has restated beginning net position to record a deferred outflow for contributions made to the pension plan between the initial measurement date and the end of the prior fiscal year, September 30, 2014. Net position was also restated to remove the TMRS net pension obligation, as previously reported.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Prior year ending net position as reported	\$ 11,511,918	\$ 17,344,399
Restatement - deferred outflows	115,163	35,963
Restatement - net pension liability	(861,980)	(269,181)
Restatement - TMRS net pension obligation	100,531	32,605
Beginning net position - restated	<u>\$ 10,865,632</u>	<u>\$ 17,143,786</u>

IV. OTHER INFORMATION

A. 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; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League’s Intergovernmental Risk Pool (the “Pool”). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three fiscal years.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount 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.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plans

Texas Municipal Retirement System

Plan Description

The City participates as one of 860 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 TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report 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 payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member's deposits and interest.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Plan provisions for the City were as follows:

	2015	2014
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees Covered by Benefit Terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	22
Inactive employees entitled to but not yet receiving benefits	34
Active employees	49
Total	105

Contributions

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

Employees for the City were required to contribute five percent of their annual gross earnings during the fiscal year. The contribution rate for the City was 9.41 percent for both calendar years 2014 and 2015. The City's contributions to TMRS for the fiscal year ended September 30, 2015 were \$211,732, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Actuarial Assumptions

The TPL in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is seven percent. 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 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.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the TPL was seven percent. 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 TPL.

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Changes for the year:			
Service cost	\$ 205,392	\$ -	\$ 205,392
Interest	537,078	-	537,078
Change of benefit terms	-	-	-
Difference between expected and actual experience	(204,420)	-	(204,420)
Changes of assumptions	-	-	-
Contributions - employer	-	207,554	(207,554)
Contributions - employee	-	110,231	(110,231)
Net investment income	-	376,431	(376,431)
Benefit payments, including refunds of employee contributions	(282,342)	(282,342)	-
Administrative expense	-	(3,930)	3,930
Other changes	-	(323)	323
Net Changes	255,708	407,621	(151,913)
Balance at December 31, 2013	7,711,020	6,579,859	1,131,161
Balance at December 31, 2014	\$ 7,966,728	\$ 6,987,480	\$ 979,248

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of seven percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	\$ 2,038,874	\$ 979,248	\$ 110,030

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2015, the City recognized net pension expense of \$142,110.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 153,796
Difference between projected and actual investment earnings	67,327	-
Contributions subsequent to the measurement date	155,308	-
Total	\$ 222,635	\$ 153,796

\$155,308 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the fiscal year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Pension Expense
2016	\$ (33,792)
2017	(33,792)
2018	(33,792)
2019	14,907
2020	-
Thereafter	-
Total	\$ (86,469)

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

D. Other Post Employment Benefits

TMRS Supplemental Death Benefit Fund

Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other post employment benefit,” or OPEB. For the year ended September 30, 2015, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City’s contributions to the TMRS SDBF for fiscal years ended 2015, 2014, and 2013 were \$675, \$663, and \$719, respectively. The City’s contribution rates for the past three years are shown below:

	2015	2014	2013
Annual Req. Contrib. (Rate)	0.03%	0.03%	0.03%
Actual Contribution Made	0.03%	0.03%	0.03%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

Post Employment Healthcare Plan

Plan Description

The City administers a single-employer defined benefit OPEB plan, known as the Post Employment Health Plan (the “Plan”). Employees are eligible for retiree health benefits if they retire with at least 20 years of service from the City. Employees may continue coverage on the City’s Plan in existence at the time of retirement. The City pays the entire premium for the retiree’s health insurance coverage. Dependent coverage is not offered. The Plan offers Medigap insurance coverage to eligible retirees after retirees have attained the age of 65 years and are eligible for Medicare instead of the full coverage provided prior to becoming eligible for Medicare.

Funding Policy

Funding is provided on a pay-as-you-go basis.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Annual OPEB Cost

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the Plan, and the City's net OPEB obligation:

Annual required contribution (ARC)	\$	68,434
Interest on net OPEB obligation		10,094
Adjustment to the ARC		(15,150)
Annual OPEB cost		63,378
Contributions made		(2,317)
Increase in net OPEB obligation		61,061
Net OPEB obligation-beginning of year		288,394
Net OPEB obligation-end of year	\$	349,455

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2015 and the two preceding years are as follows:

Fiscal Year	Annual OPEB	Percentage of AOC	Net OPEB Obligation	
	Cost (AOC)	Contributed	Beginning	Ending
2013	\$ 64,976	3.19%	\$ 163,215	\$ 226,121
2014	\$ 64,469	3.41%	\$ 226,121	\$ 288,394
2015	\$ 63,378	3.66%	\$ 288,394	\$ 349,455

Funded Status and Funding Progress

As of October 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$513,201 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$513,201.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Investment Rate of Return	3.50%
Healthcare Cost Trend Rate (Initial/Ultimate)	8.30% / 5.00%

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF JACINTO CITY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Budget as Amended</u>		
Revenues				
Ad valorem taxes	\$ 2,175,321	\$ 2,175,321	\$ 2,278,804	\$ 103,483
Sales taxes	675,000	675,000	753,866	78,866
Franchise and local taxes	759,347	759,347	753,396	(5,951)
Licenses and permits	83,100	83,100	68,748	(14,352)
Fines and forfeitures	817,750	817,750	896,243	78,493
Charges for services	328,400	328,400	318,934	(9,466)
Intergovernmental	68,000	68,000	63,606	(4,394)
Investment income	6,000	6,000	9,839	3,839
Other revenue	168,670	168,670	212,648	43,978
Total Revenues	<u>5,081,588</u>	<u>5,081,588</u>	<u>5,356,084</u>	<u>274,496</u>
Expenditures				
Current:				
General government	614,821	724,247	718,201	6,046
Public safety	2,738,929	2,937,333	2,863,859	73,474
Public works	816,702	834,846	780,668	54,178
Community services	714,660	725,682	704,551	21,131
Debt service:				
Principal	47,482	51,949	51,949	-
Interest and fiscal charges	-	1,248	1,248	-
Total Expenditures	<u>4,932,594</u>	<u>5,275,305</u>	<u>5,120,476</u>	<u>154,829</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>148,994</u>	<u>(193,717)</u>	<u>235,608</u>	<u>429,325</u>
Other Financing Sources (Uses)				
Transfers in	-	-	2,690	2,690
Transfers (out)	-	-	(287,220)	(287,220) *
Capital lease	-	-	92,592	92,592
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>(191,938)</u>	<u>(191,938)</u>
Net Change in Fund Balance	<u>\$ 148,994</u>	<u>\$ (193,717)</u>	<u>43,670</u>	<u>\$ 237,387</u>
Beginning fund balance			<u>9,923,888</u>	
Ending Fund Balance			<u>\$ 9,967,558</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Expenditures exceeded appropriations at the legal level of control.

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CITY OF JACINTO CITY, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2015

	Measurement Year*
	2014
Total Pension Liability	
Service cost	\$ 205,392
Interest (on the total pension liability)	537,078
Changes of benefit terms	-
Difference between expected and actual experience	(204,420)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(282,342)
Net Change in Total Pension Liability	255,708
Beginning total pension liability	7,711,020
Ending Total Pension Liability	\$ 7,966,728
 Plan Fiduciary Net Position	
Contributions - employer	\$ 207,554
Contributions - employee	110,231
Net investment income	376,431
Benefit payments, including refunds of employee contributions	(282,342)
Administrative expense	(3,930)
Other	(323)
Net Change in Plan Fiduciary Net Position	407,621
Beginning plan fiduciary net position	6,579,859
Ending Plan Fiduciary Net Position	\$ 6,987,480
Net Pension Liability	\$ 979,248
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	 87.71%
 Covered Employee Payroll	 \$ 2,204,612
 Net Pension Liability as a Percentage of Covered Employee Payroll	 44.42%

*Only one year of information is currently available. The City will build this schedule over the next nine-year period.

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CITY OF JACINTO CITY TEXAS

SCHEDULE OF CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2015

	Fiscal Year*	
	2014	2015
Actuarially determined contribution	\$ 206,531	\$ 211,732
Contributions in relation to the actuarially determined contribution	(206,531)	(211,732)
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 2,209,560	\$ 2,250,078
Contributions as a percentage of covered employee payroll	9.35%	9.41%

*Only two years of information is currently available. The City will build this schedule over the next eight-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	16 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.0% including inflation
Investment rate of return	7.0%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
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 B.

3. Other Information:

There were no benefit changes during the year.

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CITY OF JACINTO CITY, TEXAS

SCHEDULE OF FUNDING PROGRESS

POST EMPLOYMENT HEALTHCARE BENEFITS

September 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
10/01/09	\$ -	\$ 431,710	\$ 431,710	0.00%	\$ 2,349,618	18.37%
10/01/12	\$ -	\$ 513,201	\$ 513,201	0.00%	\$ 2,221,423	23.10%

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SCHEDULES

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CITY OF JACINTO CITY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2015

	<u>Original and Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Ad valorem taxes	\$ 481,302	\$ 526,149	\$ 44,847
Investment income	-	74	74
Other revenue	-	9,100	9,100
Total Revenues	<u>481,302</u>	<u>535,323</u>	<u>54,021</u>
<u>Expenditures</u>			
Principal	390,000	390,000	-
Interest and fiscal charges	91,302	91,300	2
Total Expenditures	<u>481,302</u>	<u>481,300</u>	<u>2</u>
Excess (Deficiency of Revenues Over (Under) Expenditures	<u>-</u>	<u>54,023</u>	<u>54,023</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	-	287,220	287,220
Total Other Financing Sources	<u>-</u>	<u>287,220</u>	<u>287,220</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>341,243</u>	<u>\$ 341,243</u>
Beginning fund balance		<u>(287,220)</u>	
Ending Fund Balance		<u>\$ 54,023</u>	

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