*ANNUAL FINANCIAL REPORT*

**of the**

# CITY OF JACINTO CITY, TEXAS

**For the Year Ended**
**September 30, 2016**

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# CITY OF JACINTO CITY, TEXAS

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**September 30, 2016**


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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, 2016, 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.



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## 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, 2016, 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.

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

The 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 schedule 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 16, 2017

# *MANAGEMENT'S DISCUSSION AND ANALYSIS*

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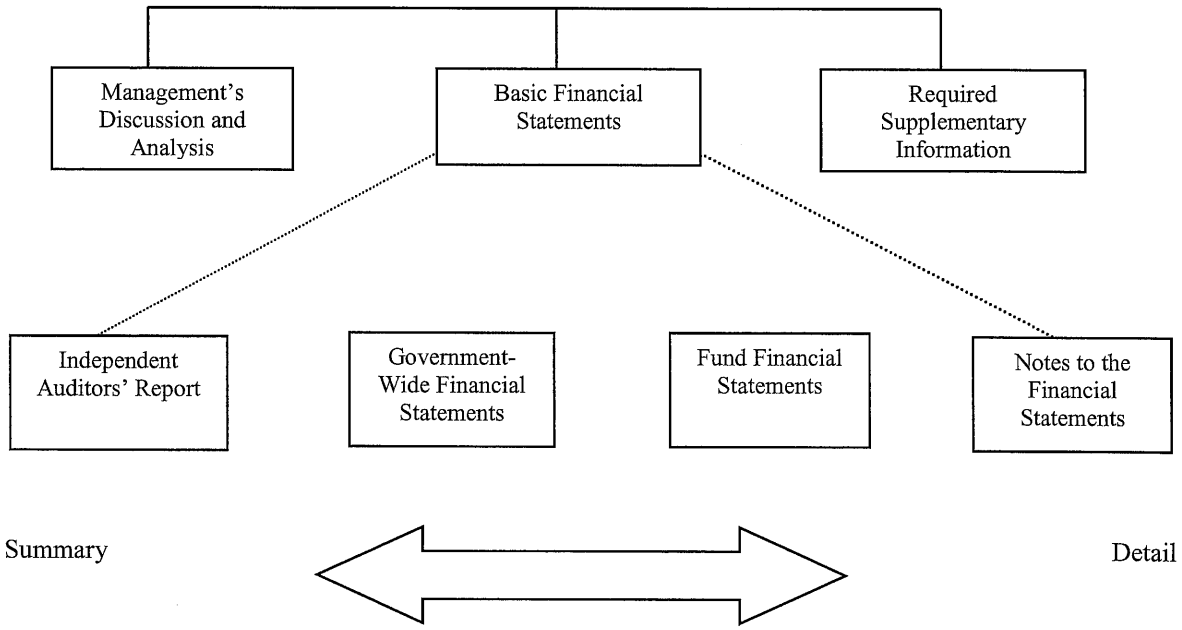
The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Jacinto City (the "City") for the year ending September 30, 2016. The analysis is based on currently known facts, decisions, or economic 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

**Components of the Financial Section**




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 outflows/inflows 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.

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's financials 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, and 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.

**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 $28,478,171 as of year end. This compares with $28,195,408 from the prior fiscal year. The largest portion of the City's net position, 65 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.

**Statement of Net Position:**

The following table provides a condensed Statement of Net Position:

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Reconciliation | Total | Governmental Activities | Business-Type Activities | Reconciliation | Total |
| Current and other assets | $ 10,873,193 | $ 1,158,216 | $ - | $ 12,031,409 | $ 11,017,264 | $ 1,334,388 | $ - | $ 12,351,652 |
| Capital assets, net | 5,405,627 | 15,854,872 | - | 21,260,499 | 5,078,443 | 15,898,803 | - | 20,977,246 |
| **Total Assets** | 16,278,820 | 17,013,088 | - | 33,291,908 | 16,095,707 | 17,233,191 | - | 33,328,898 |
| Deferred outflows - pensions | 490,332 | 153,122 | - | 643,454 | 169,655 | 52,980 | - | 222,635 |
| Deferred charge on refunding | 23,846 | - | - | 23,846 | 27,820 | - | - | 27,820 |
| **Total Deferred Outflows of Resources** | 514,178 | 153,122 | - | 667,300 | 197,475 | 52,980 | - | 250,455 |
| Long-term liabilities | 4,298,153 | 480,282 | - | 4,778,435 | 4,296,599 | 314,523 | - | 4,611,122 |
| Other liabilities | 256,813 | 296,459 | - | 553,272 | 321,323 | 297,704 | - | 619,027 |
| **Total Liabilities** | 4,554,966 | 776,741 | - | 5,331,707 | 4,617,922 | 612,227 | - | 5,230,149 |
| Deferred inflows - pensions | 113,794 | 35,536 | - | 149,330 | 117,197 | 36,599 | - | 153,796 |
| **Total Deferred Inflows of Resources** | 113,794 | 35,536 | - | 149,330 | 117,197 | 36,599 | - | 153,796 |
| Net investment in capital assets | 5,369,818 | 15,814,076 | (2,640,000) | 18,543,894 | 5,046,392 | 15,898,803 | (3,045,000) | 17,900,195 |
| Restricted | 767,995 | - | - | 767,995 | 663,120 | - | - | 663,120 |
| Unrestricted | 5,986,425 | 539,857 | 2,640,000 | 9,166,282 | 5,848,551 | 738,542 | 3,045,000 | 9,632,093 |
| **Total Net Position** | $ 12,124,238 | $ 16,353,933 | - | $ 28,478,171 | $ 11,558,063 | $ 16,637,345 | - | $ 28,195,408 |

A portion of the primary government's net position, $767,995 or three percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $9,166,282 or 32 percent, 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 $2,640,000 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, 2016, the City reported deferred outflows and inflows of resources related to its pension plan of $643,454 and $149,330, respectively. In addition, the City reported a net pension liability of $1,403,790, which is part of the $4,778,435 reported in long-term liabilities. The detail of these amounts is further discussed in the notes to the financial statements.

**Statement of Activities:**

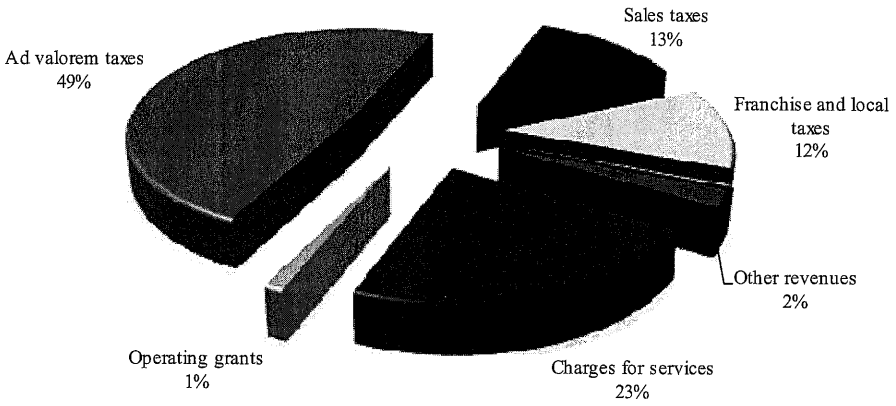
The following table provides a summary of the City's changes in net position:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total Primary Government | Governmental Activities | Business-Type Activities | Total Primary Government |
| **Revenues** | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 1,415,060 | $ 2,708,757 | $ 4,123,817 | $ 1,266,891 | $ 2,729,712 | $ 3,996,603 |
| Operating grants | 72,177 | - | 72,177 | 63,606 | - | 63,606 |
| Capital grants | - | 315,606 | 315,606 | - | 16,032 | 16,032 |
| General revenues: | | | | | | |
| Ad valorem taxes | 3,026,511 | - | 3,026,511 | 2,776,788 | - | 2,776,788 |
| Sales taxes | 777,041 | - | 777,041 | 753,866 | - | 753,866 |
| Franchise and local taxes | 756,092 | - | 756,092 | 753,396 | - | 753,396 |
| Investment income | 22,963 | 1,400 | 24,363 | 9,913 | 180 | 10,093 |
| Other revenues | 148,526 | - | 148,526 | 221,748 | - | 221,748 |
| **Total Revenues** | 6,218,370 | 3,025,763 | 9,244,133 | 5,846,208 | 2,745,924 | 8,592,132 |
| **Expenses** | | | | | | |
| General government | 847,873 | - | 847,873 | 854,033 | - | 854,033 |
| Public safety | 3,084,028 | - | 3,084,028 | 2,838,625 | - | 2,838,625 |
| Public works | 887,016 | - | 887,016 | 749,601 | - | 749,601 |
| Community services | 763,101 | - | 763,101 | 638,537 | - | 638,537 |
| Interest and fees on debt | 70,177 | - | 70,177 | 75,671 | - | 75,671 |
| Public utilities | - | 3,309,175 | 3,309,175 | - | 3,249,675 | 3,249,675 |
| **Total Expenses** | 5,652,195 | 3,309,175 | 8,961,370 | 5,156,467 | 3,249,675 | 8,406,142 |
| **Increase (Decrease) in Net Position Before Transfers** | 566,175 | (283,412) | 282,763 | 689,741 | (503,751) | 185,990 |
| Transfers | - | - | - | 2,690 | (2,690) | - |
| **Change in Net Position** | 566,175 | (283,412) | 282,763 | 692,431 | (506,441) | 185,990 |
| Beginning net position | 11,558,063 | 16,637,345 | 28,195,408 | 10,865,632 | 17,143,786 | 28,009,418 |
| **Ending Net Position** | $ 12,124,238 | $ 16,353,933 | $ 28,478,171 | $ 11,558,063 | $ 16,637,345 | $ 28,195,408 |

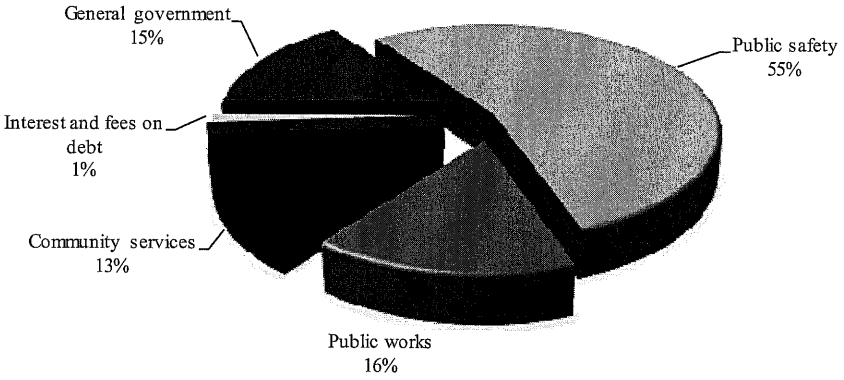
The City's net position increased by $282,763 during the current fiscal year. This net change can be attributed to several factors. Total revenues increased by $652,001 primarily due to an increase in charges for services, capital grants, and ad valorem taxes. Total expenses increased by $555,228 due to increase in public safety, public works, and community service expenses.

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

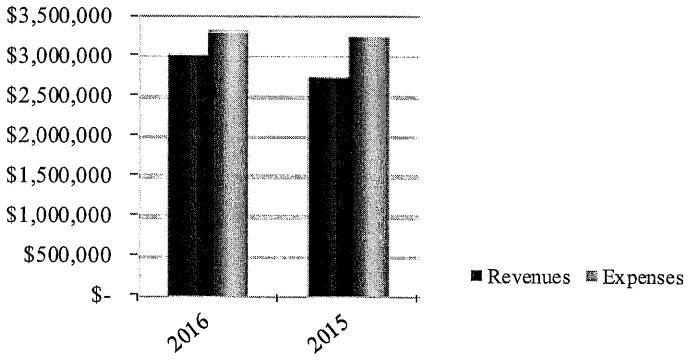
**GOVERNMENTAL REVENUES**




**GOVERNMENTAL EXPENSES**




**BUSINESS-TYPE ACTIVITIES**
**REVENUES AND EXPENSES**



Total revenues for the governmental activities increased by six percent when compared to the previous year. This increase is attributable to an increase in charges for services and property tax revenue. The increase in charges for services can be attributed to more fines and forfeitures collected in the current fiscal year. Property tax revenue increased due to higher property tax valuations in the current year. Expenses increased ten percent compared to the previous year as a result of increased spending for public safety, public works, and community services. The increase in public safety and public works expenses is related to an increase in salary and benefits, as well as repair and maintenance costs. The increase in community services is attributed to higher depreciation expense reported during the current year.

Overall, business-type activity revenues increased by $279,839 when compared to the previous year. This increase in revenue is attributable to capital grant revenue the City received for a Community Development Block Grant project related to water mains and fire protection design, as well as expected reimbursement from the General Land Office. Expenses increased $59,500, which slightly offset the overall increase in revenue.

## 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 $9,933,082. Of this, $767,995 is restricted for various purposes. There was a decrease in the combined fund balance of $159,196 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 $9,165,087. 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 156 percent of the total general fund expenditures, while total fund balance represents 168 percent of that same amount.

The fund balance in the general fund decreased by $174,748 for a total of $9,863,507 at year end due to an increase in expenditures related to public safety, public works, and capital outlay. Public safety and public works expenditures increased due to maintenance and repair costs, as well as planned purchases for vehicles and equipment. Capital outlay expenditures increased due to various construction projects within the City, including the police station design, Town Center upgrades, and Smith Park restroom and concession stand.

The fund balance of the debt service fund increased by $15,552. This increase is attributed to an increase in property tax revenue, offset by a slight increase in debt service activity costs. The ending fund balance of the debt service fund was $69,575 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 $172,782 for the general fund. Total actual revenues were more than budgeted revenues by $166,975. Actual expenditures were $3,556,206 less than budgeted expenditures.

## CAPITAL ASSETS

At the end of the year, the City's governmental activities and business-type activities had invested $5,405,627 and $15,854,872, respectively, in a variety of capital assets and infrastructure (net of accumulated depreciation). The significant capital asset acquisitions during the current year included the following:

- Design of the police station (construction in progress): $130,305
- Waterline rehabilitation and Mercury Drive lift station (construction in progress): $315,606
- Smith Park restroom upgrades: $117,786
- Various City vehicles: $140,536

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 $2,640,000 and capital leases of $59,655.

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 2017 total $11,395,383 in the general fund and $485,400 in the debt service fund. The City Council adopted a 2016 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, 2016**

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Reconciliation | Total |
| **Assets** | | | | |
| Current assets: | | | | |
| Cash - unrestricted | $ 7,382,749 | $ 202,755 | $ - | $ 7,585,504 |
| Investments | 2,505,479 | 507,398 | - | 3,012,877 |
| Receivables, net | 905,099 | 465,317 | - | 1,370,416 |
| Internal balances | 17,254 | (17,254) | - | - |
| Cash - restricted | 62,612 | - | - | 62,612 |
| | 10,873,193 | 1,158,216 | - | 12,031,409 |
| Capital assets: | | | | |
| Nondepreciable | 167,389 | 323,559 | - | 490,948 |
| Net depreciable capital assets | 5,238,238 | 15,531,313 | - | 20,769,551 |
| | 5,405,627 | 15,854,872 | - | 21,260,499 |
| **Total Assets** | 16,278,820 | 17,013,088 | - | 33,291,908 |
| **Deferred Outflows of Resources** | | | | |
| Deferred outflows - pensions | 490,332 | 153,122 | - | 643,454 |
| Deferred charge on refunding | 23,846 | - | - | 23,846 |
| **Total Deferred Outflows of Resources** | 514,178 | 153,122 | - | 667,300 |
| **Liabilities** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | 256,813 | 96,670 | - | 353,483 |
| Customer deposits | - | 199,789 | - | 199,789 |
| | 256,813 | 296,459 | - | 553,272 |
| Noncurrent liabilities: | | | | |
| Due within one year | 500,144 | 25,253 | - | 525,397 |
| Due in more than one year | 3,798,009 | 455,029 | - | 4,253,038 |
| | 4,298,153 | 480,282 | - | 4,778,435 |
| **Total Liabilities** | 4,554,966 | 776,741 | - | 5,331,707 |
| **Deferred Inflows of Resources** | | | | |
| Deferred inflows - pensions | 113,794 | 35,536 | - | 149,330 |
| **Net Position** | | | | |
| Net investment in capital assets | 5,369,818 | 15,814,076 | (2,640,000) | 18,543,894 |
| Restricted for: | | | | |
| Child safety | 249,906 | - | - | 249,906 |
| Debt service | 69,575 | - | - | 69,575 |
| Court technology | 213,664 | - | - | 213,664 |
| Municipal court | 33,124 | - | - | 33,124 |
| Police equipment | 78,091 | - | - | 78,091 |
| Governmental programming | 123,635 | - | - | 123,635 |
| Unrestricted | 5,986,425 | 539,857 | 2,640,000 | 9,166,282 |
| **Total Net Position** | $ 12,124,238 | $ 16,353,933 | $ - | $ 28,478,171 |

See Notes to Financial Statements.

# CITY OF JACINTO CITY, TEXAS

*STATEMENT OF ACTIVITIES*

**For the Year Ended September 30, 2016**

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions |
|---|---|---|---|---|
| **Primary Government** | | | | |
| **Governmental Activities** | | | | |
| General government | $ 847,873 | $ - | $ - | $ - |
| Public safety | 3,084,028 | 1,352,396 | - | - |
| Public works | 887,016 | 62,664 | - | - |
| Community services | 763,101 | - | 72,177 | - |
| Interest and fees on debt | 70,177 | - | - | - |
| **Total Governmental Activities** | 5,652,195 | 1,415,060 | 72,177 | - |
| **Business-Type Activities** | | | | |
| Public utilities | 3,309,175 | 2,708,757 | - | 315,606 |
| **Total Business-Type Activities** | 3,309,175 | 2,708,757 | - | 315,606 |
| **Total Primary Government** | $ 8,961,370 | $ 4,123,817 | $ 72,177 | $ 315,606 |

**General Revenues:**

Taxes

Ad valorem taxes

Sales taxes

Franchise and local taxes

Investment income

Other revenues

**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 |
| $ (847,873) | $ - | $ (847,873) |
| (1,731,632) | - | (1,731,632) |
| (824,352) | - | (824,352) |
| (690,924) | - | (690,924) |
| (70,177) | - | (70,177) |
| (4,164,958) | - | (4,164,958) |
| - | (284,812) | (284,812) |
| - | (284,812) | (284,812) |
| (4,164,958) | (284,812) | (4,449,770) |
| 3,026,511 | - | 3,026,511 |
| 777,041 | - | 777,041 |
| 756,092 | - | 756,092 |
| 22,963 | 1,400 | 24,363 |
| 148,526 | - | 148,526 |
| 4,731,133 | 1,400 | 4,732,533 |
| 566,175 | (283,412) | 282,763 |
| 11,558,063 | 16,637,345 | 28,195,408 |
| $ 12,124,238 | $ 16,353,933 | $ 28,478,171 |

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# CITY OF JACINTO CITY, TEXAS

*BALANCE SHEET*

*GOVERNMENTAL FUNDS*

**September 30, 2016**

| | General | Debt Service | Total Governmental Funds |
|---|---|---|---|
| **Assets** | | | |
| Cash - unrestricted | $ 6,552,944 | $ 829,805 | $ 7,382,749 |
| Investments | 2,505,479 | - | 2,505,479 |
| Receivables, net | 827,272 | 77,827 | 905,099 |
| Cash - restricted | 62,612 | - | 62,612 |
| Due from other funds | 777,589 | - | 777,589 |
| **Total Assets** | $ 10,725,896 | $ 907,632 | $ 11,633,528 |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | $ 225,794 | $ - | $ 225,794 |
| Due to other funds | - | 760,335 | 760,335 |
| **Total Liabilities** | 225,794 | 760,335 | 986,129 |
| **Deferred Inflows of Resources** | | | |
| Unavailable revenue - EMS services | 276,995 | - | 276,995 |
| Unavailable revenue - property taxes | 359,600 | 77,722 | 437,322 |
| **Total Deferred Inflows of Resources** | 636,595 | 77,722 | 714,317 |
| **Fund Balances** | | | |
| Restricted | | | |
| Child safety | 249,906 | - | 249,906 |
| Debt service | - | 69,575 | 69,575 |
| Court technology | 213,664 | - | 213,664 |
| Municipal court | 33,124 | - | 33,124 |
| Police equipment | 78,091 | - | 78,091 |
| Governmental programming | 123,635 | - | 123,635 |
| Unassigned | 9,165,087 | - | 9,165,087 |
| **Total Fund Balances** | 9,863,507 | 69,575 | 9,933,082 |
| **Total Liabilities, Deferred Inflows of Resources, and Fund Balances** | $ 10,725,896 | $ 907,632 | |
| 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 - nondepreciable | | | 167,389 |
| Capital assets - net depreciable | | | 5,238,238 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | | | 714,317 |
| Long-term liabilities and deferred outflows/inflows are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | | |
| Accrued interest payable | | | (31,019) |
| Deferred charge on refunding | | | 23,846 |
| Deferred outflows - pensions | | | 490,332 |
| Deferred inflows - pensions | | | (113,794) |
| Noncurrent liabilities due within one year | | | (500,144) |
| Noncurrent liabilities due in more than one year | | | (3,798,009) |
| **Net Position of Governmental Activities** | | | $ 12,124,238 |

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, 2016**

| | General | Debt Service | Total Governmental Funds |
|---|---|---|---|
| **Revenues** | | | |
| Ad valorem taxes | $ 2,519,246 | $ 493,556 | $ 3,012,802 |
| Sales taxes | 777,041 | - | 777,041 |
| Franchise and local taxes | 756,092 | - | 756,092 |
| Licenses and permits | 62,664 | - | 62,664 |
| Fines and forfeitures | 978,587 | - | 978,587 |
| Charges for services | 311,229 | - | 311,229 |
| Intergovernmental | 72,177 | - | 72,177 |
| Investment income | 21,943 | 1,020 | 22,963 |
| Other revenue | 139,050 | 9,476 | 148,526 |
| **Total Revenues** | 5,638,029 | 504,052 | 6,142,081 |
| **Expenditures** | | | |
| Current: | | | |
| General government | 674,266 | - | 674,266 |
| Public safety | 2,963,165 | - | 2,963,165 |
| Public works | 938,326 | - | 938,326 |
| Community services | 722,018 | - | 722,018 |
| Capital outlay | 511,108 | | 511,108 |
| Debt service: | | | |
| Principal | 44,817 | 405,000 | 449,817 |
| Interest and fiscal charges | 3,678 | 83,500 | 87,178 |
| **Total Expenditures** | 5,857,378 | 488,500 | 6,345,878 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | (219,349) | 15,552 | (203,797) |
| **Other Financing Sources (Uses)** | | | |
| Capital lease | 44,601 | - | 44,601 |
| **Total Other Financing Sources** | 44,601 | - | 44,601 |
| **Net Change in Fund Balances** | (174,748) | 15,552 | (159,196) |
| Beginning fund balances | 10,038,255 | 54,023 | 10,092,278 |
| **Ending Fund Balances** | $ 9,863,507 | $ 69,575 | $ 9,933,082 |

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, 2016**

| | | |
|---|---|---|
| Net changes in fund balances - total governmental funds | $ | (159,196) |
| 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 | | 677,082 |
| Disposals of capital assets, net | | (5,194) |
| Depreciation expense | | (344,704) |
| 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 | | 13,709 |
| Deferred emergency services revenue | | 62,580 |
| 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 | | 405,000 |
| Loss on refunding | | (3,974) |
| Amortization of premium | | 17,629 |
| Capital lease proceeds | | (44,601) |
| Capital lease payments | | 44,817 |
| 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 | | (1,995) |
| Net pension liability | | (323,514) |
| Net OPEB obligation | | (98,890) |
| Change in deferred outflows - pension | | 320,677 |
| Change in deferred inflows - pension | | 3,403 |
| Accrued interest payable | | 3,346 |
| **Change in Net Position of Governmental Activities** | $ | 566,175 |

See Notes to Financial Statements.

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# CITY OF JACINTO CITY, TEXAS

*STATEMENT OF NET POSITION*

*PROPRIETARY FUND*

**September 30, 2016**

| | Enterprise |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash, unrestricted | $ 202,755 |
| Investments | 507,398 |
| Receivables, net | 465,317 |
| **Total Current Assets** | 1,175,470 |
| **Noncurrent Assets** | |
| Capital assets: | |
| Nondepreciable | 323,559 |
| Net depreciable capital assets | 15,531,313 |
| **Total Noncurrent Assets** | 15,854,872 |
| **Total Assets** | 17,030,342 |
| **Deferred Outflows of Resources** | |
| Deferred outflows - pensions | 153,122 |
| **Liabilities** | |
| **Current Liabilities** | |
| Accounts payable and accrued liabilities | 96,670 |
| Customer deposits | 199,789 |
| Due to other funds | 17,254 |
| **Total Current Liabilities** | 313,713 |
| **Noncurrent Liabilities** | |
| Due within one year | 25,253 |
| Due in more than one year | 455,029 |
| **Total Noncurrent Liabilities** | 480,282 |
| **Total Liabilities** | 793,995 |
| **Deferred Inflows of Resources** | |
| Deferred inflows - pensions | 35,536 |
| **Net Position** | |
| Net investment in capital assets | 15,814,076 |
| Unrestricted | 539,857 |
| **Total Net Position** | $ 16,353,933 |

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, 2016**

| | | Enterprise |
|---|---|---|
| **Operating Revenues** | | |
| Water charges | | $ 1,586,855 |
| Sewer charges | | 740,461 |
| Sanitation | | 294,307 |
| Other services | | 87,134 |
| | **Total Operating Revenues** | 2,708,757 |
| **Operating Expenses** | | |
| Costs of sales and services | | 2,178,239 |
| Administration | | 681,130 |
| Depreciation | | 447,819 |
| | **Total Operating Expenses** | 3,307,188 |
| | **Operating (Loss)** | (598,431) |
| **Nonoperating Revenues (Expenses)** | | |
| Investment income | | 1,400 |
| Interest expense | | (1,987) |
| Intergovernmental revenue | | 315,606 |
| | **Total Nonoperating Revenues** | 315,019 |
| | **Change in Net Position** | (283,412) |
| Beginning net position | | 16,637,345 |
| | **Ending Net Position** | $ 16,353,933 |

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, 2016**

| | Enterprise |
|---|---|
| **Cash Flows from Operating Activities** | |
| Receipts from customers | $ 2,505,554 |
| Payments to suppliers | (2,125,298) |
| Payments to employees | (657,372) |
| **Net Cash (Used) by Operating Activities** | (277,116) |
| **Cash Flows from Noncapital Financing Activities** | |
| Intergovernmental revenue | 315,606 |
| **Net Cash Provided by Noncapital Financing Activities** | 315,606 |
| **Cash Flows from Capital and Related Financing Activities** | |
| Capital purchases | (403,888) |
| Proceeds on capital lease | 63,047 |
| Principal paid on capital lease | (22,251) |
| Interest paid on capital debt | (1,987) |
| **Net Cash (Used) by Capital and Related Financing Activities** | (365,079) |
| **Cash Flows from Investing Activities** | |
| Purchase of investments | (1,112) |
| Interest on investments | 1,400 |
| **Net Cash Provided by Investing Activities** | 288 |
| **Net (Decrease) in Cash and Cash Equivalents** | (326,301) |
| Beginning cash and cash equivalents | 529,056 |
| **Ending Cash and Cash Equivalents** | $ 202,755 |

# CITY OF JACINTO CITY, TEXAS

*STATEMENT OF CASH FLOWS*

*PROPRIETARY FUND (Page 2 of 2)*

**For the Year Ended September 30, 2016**

| | Enterprise |
|---|---|
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities** | |
| Operating (loss) | $ (598,431) |
| **Adjustments to Reconcile Operating (Loss) to Net Cash (Used) by Operating Activities:** | |
| Depreciation | 447,819 |
| **Changes in Operating Assets and Liabilities:** | |
| **(Increase) Decrease in Current Assets:** | |
| Accounts receivable | (204,436) |
| Due from other funds | 38,165 |
| Deferred outflows - pensions | (100,142) |
| **Increase (Decrease) in Current Liabilities:** | |
| Accounts payable and accrued liabilities | (2,478) |
| Customer deposits | 1,233 |
| Due to other funds | 17,254 |
| Compensated absences | 288 |
| Net pension liability | 101,028 |
| OPEB obligation | 23,647 |
| Deferred inflows - pensions | (1,063) |
| **Net Cash (Used) by Operating Activities** | $ (277,116) |

See Notes to Financial Statements.

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## 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

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

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.

## 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

The City reports all investments at fair value, except for certain investment pools and money market investments. 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. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

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.

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:

| Asset Description | Useful Life |
|---|---|
| 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 50 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 four 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 outflows of resources are 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. Deferred charges have been recognized as a result of changes in actuarial assumptions 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. 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

sick time upon termination. However, employees who have unused sick time that 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 statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, if material. 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 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.

### 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. 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. Supplemental budget appropriations were made during the year.

## 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 | Value | Weighted Average Maturity (Years) |
|---|---|---|
| Certificates of deposit | $ 3,012,877 | 0.33 |

*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, 2016, 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 | $ - | $ - | $ 484,462 | $ 484,462 |
| Ad valorem | 362,671 | 80,241 | - | 442,912 |
| Sales taxes | 124,472 | - | - | 124,472 |
| Other | 571,475 | 106 | 225,685 | 797,266 |
| Less allowance | (231,346) | (2,520) | (244,830) | (478,696) |
| **Totals** | $ 827,272 | $ 77,827 | $ 465,317 | $ 1,370,416 |

## C. Capital Assets

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

| | Primary Government | | | |
|---|---|---|---|---|
| | Beginning Balance | Increases | Decreases | Ending Balance |
| **Governmental Activities:** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 37,084 | $ - | $ - | $ 37,084 |
| Construction in progress | - | 130,305 | - | 130,305 |
| Total capital assets, not being depreciated | 37,084 | 130,305 | - | 167,389 |
| Capital assets, being depreciated: | | | | |
| Buildings | 6,373,299 | 212,157 | - | 6,585,456 |
| Improvements other than buildings | 499,073 | 112,838 | - | 611,911 |
| Infrastructure | 2,600,524 | 97,000 | - | 2,697,524 |
| Equipment | 1,179,087 | 47,291 | - | 1,226,378 |
| Vehicles | 1,952,552 | 77,491 | (48,368) | 1,981,675 |
| Total capital assets being depreciated | 12,604,535 | 546,777 | (48,368) | 13,102,944 |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,661,578) | (166,550) | - | (2,828,128) |
| Improvements other than buildings | (375,926) | (25,493) | - | (401,419) |
| Infrastructure | (1,928,458) | (15,349) | - | (1,943,807) |
| Equipment | (1,062,932) | (32,615) | - | (1,095,547) |
| Vehicles | (1,534,282) | (104,697) | 43,174 | (1,595,805) |
| Total accumulated depreciation | (7,563,176) | (344,704) | 43,174 | (7,864,706) |
| Total capital assets, being depreciated, net | 5,041,359 | 202,073 | (5,194) | 5,238,238 |
| **Governmental Activities Capital Assets, Net** | $ 5,078,443 | $ 332,378 | $ (5,194) | 5,405,627 |
| | | | **Less associated debt** | (59,655) |
| | | | **Plus deferred charge on refunding** | 23,846 |
| | | | **Net Investment in Capital Assets** | $ 5,369,818 |

Depreciation was charged to governmental functions as follows:

| | |
|---|---|
| General government | $ 94,571 |
| Public safety | 128,899 |
| Public works | 60,497 |
| Community services | 60,737 |
| **Total Governmental Activities Depreciation Expense** | $ 344,704 |

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Business-Type Activities:** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 7,953 | $ - | $ - | $ 7,953 |
| Construction in progress | - | 315,606 | - | 315,606 |
| Total capital assets, not being depreciated | 7,953 | 315,606 | - | 323,559 |
| Capital assets, being depreciated: | | | | |
| Infrastructure | 21,159,408 | 25,235 | - | 21,184,643 |
| Equipment | 142,555 | - | - | 142,555 |
| Vehicles | 233,650 | 63,047 | (17,592) | 279,105 |
| Total capital assets being depreciated | 21,535,613 | 88,282 | (17,592) | 21,606,303 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (5,317,719) | (429,605) | - | (5,747,324) |
| Equipment | (133,579) | (4,504) | - | (138,083) |
| Vehicles | (193,465) | (13,710) | 17,592 | (189,583) |
| Total accumulated depreciation | (5,644,763) | (447,819) | 17,592 | (6,074,990) |
| Total capital assets, being depreciated, net | 15,890,850 | (359,537) | - | 15,531,313 |
| **Business-Type Activities Capital Assets, Net** | $ 15,898,803 | $ (43,931) | $ - | 15,854,872 |
| | | | **Less Associated Debt** | (40,796) |
| | | | **Net Investment in Capital Assets** | $ 15,814,076 |

## 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 | $ 3,045,000 | $ - | $ 405,000 | $ 2,640,000 | $ 410,000 |
| Capital leases | 59,871 | 44,601 | 44,817 | 59,655 * | 44,806 |
| Compensated absences | 48,380 | 1,995 | - | 50,375 | 45,338 |
| Net pension liability | 746,218 | 323,514 | - | 1,069,732 | - |
| OPEB obligation | 273,728 | 98,890 | - | 372,618 | - |
| Premium on debt | 123,402 | - | 17,629 | 105,773 | - |
| **Total Governmental Activities** | $ 4,296,599 | $ 469,000 | $ 467,446 | $ 4,298,153 | $ 500,144 |

| | |
|---|---|
| **Long-term liabilities due in more than one year** | $ 3,798,009 |
| *** Debt associated with capital assets** | $ 59,655 |

| Business-Type Activities: | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Capital leases | $ - | $ 63,047 | $ 22,251 | $ 40,796 * | $ 19,804 |
| Compensated absences | 5,766 | 288 | - | 6,054 | 5,449 |
| Net pension liability | 233,030 | 101,028 | - | 334,058 | - |
| OPEB obligation | 75,727 | 23,647 | - | 99,374 | - |
| **Total Business-Type Activities** | $ 314,523 | $ 188,010 | $ 22,251 | $ 480,282 | $ 25,253 |

| | |
|---|---|
| **Long-term liabilities due in more than one year** | $ 455,029 |
| *** Debt associated with capital assets** | $ 40,796 |

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% | $ 2,640,000 |
| Capital leases | 6.00-6.50% | 59,655 |
| **Total Governmental Activities** | | $ 2,699,655 |

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

| Year Ending Sept. 30 | General Obligation Debt Principal | General Obligation Debt Interest |
|---|---|---|
| 2017 | $ 410,000 | $ 75,100 |
| 2018 | 420,000 | 66,900 |
| 2019 | 435,000 | 54,300 |
| 2020 | 450,000 | 41,250 |
| 2021 | 455,000 | 27,750 |
| 2022 | 470,000 | 14,100 |
| **Total** | $ 2,640,000 | $ 279,400 |

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

Future minimum payments to retire capital lease obligations for governmental and business-type activities are as follows:

| Year Ending Sept. 30 | Governmental Activities Principal | Governmental Activities Interest | Business-Type Activities Principal | Business-Type Activities Interest |
|---|---|---|---|---|
| 2017 | $ 44,806 | $ 3,690 | $ 19,804 | $ 2,448 |
| 2018 | 14,849 | 925 | 20,992 | 1,260 |
| **Total** | $ 59,655 | $ 4,615 | $ 40,796 | $ 3,708 |

The assets acquired through capital leases are as follows:

| Asset | Amount |
|---|---|
| Police vehicles | $ 239,723 |
| Dump truck | 59,292 |
| Excavator | 28,361 |
| Water utility truck | 161,185 |
| Recreation dept truck | 26,566 |
| Less: accumulated depreciation | (222,475) |
| **Total** | $ 292,652 |

## 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.

### E. Interfund Transactions

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

| Receivable Fund | Payable Fund | Amounts |
|---|---|---|
| General fund | Debt service fund | $ 760,335 |
| General fund | Water fund | 17,254 |
| | | $ 777,589 |

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

### F. Restatement of Fund Balance/Net Position

The City has restated beginning fund balance/net position to adjust for certain municipal court fees that were accounted for as liabilities in the prior year. In the current year, these fees were accounted for as restricted.

| | General Fund | Governmental Activities |
|---|---|---|
| Beginning fund balance/net position - as reported | $ 9,967,558 | $ 11,487,366 |
| Restatement - municipal court fees | 70,697 | 70,697 |
| **Beginning fund balance/net position - restated** | $ 10,038,255 | $ 11,558,063 |

## 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.

### 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 that 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 866 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 (the "Board"). 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.tmrs.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.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

| | 2016 | 2015 |
|---|---|---|
| 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, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 25 |
| Inactive employees entitled to, but not yet receiving, benefits | 34 |
| Active employees | 58 |
| **Total** | 117 |

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 rates for the City were 9.41 percent and 8.76 percent in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2016 were $230,156, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation | 2.5% per year |
| Overall payroll growth | 3.0% per year |
| Investment rate of return | 6.75%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, 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 Tables with Blue Collar Adjustment are used with males rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for younger members who becomes disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7.00 percent to 6.75 percent. 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 weighing the expected future real rates of return by the target allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of 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 | 17.50% | 4.55% |
| International Equity | 17.50% | 6.10% |
| Core Fixed Income | 10.00% | 1.00% |
| Non-Core Fixed Income | 20.00% | 3.65% |
| Real Return | 10.00% | 4.03% |
| Real Estate | 10.00% | 5.00% |
| Absolute Return | 10.00% | 4.00% |
| Private Equity | 5.00% | 8.00% |
| **Total** | 100.00% | |

Discount Rate

The discount rate used to measure the TPL was 6.75 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 | $ 212,876 | $ - | $ 212,876 |
| Interest | 554,470 | - | 554,470 |
| Change of benefit terms | - | - | - |
| Difference between expected and actual experience | (63,980) | - | (63,980) |
| Changes of assumptions | 59,781 | - | 59,781 |
| Contributions - employer | - | 218,685 | (218,685) |
| Contributions - employee | - | 116,199 | (116,199) |
| Net investment income | - | 10,311 | (10,311) |
| Benefit payments, including refunds of employee contributions | (304,362) | (304,362) | - |
| Administrative expense | - | (6,280) | 6,280 |
| Other changes | - | (310) | 310 |
| **Net Changes** | 458,785 | 34,243 | 424,542 |
| Balance at December 31, 2014 | 7,966,728 | 6,987,480 | 979,248 |
| **Balance at December 31, 2015** | $ 8,425,513 | $ 7,021,723 | $ 1,403,790 |

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of 6.75 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|---|---|---|---|
| City's Net Pension Liability | $ 2,505,021 | $ 1,403,790 | $ 499,215 |

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2016, the City recognized net pension expense of $229,413.

At September 30, 2016, 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 | $ - | $ 149,330 |
| Changes in actuarial assumptions | 43,129 | - |
| Difference between projected and actual investment earnings | 433,546 | - |
| Contributions subsequent to the measurement date | 166,779 | - |
| **Total** | $ 643,454 | $ 149,330 |

$166,779 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 NPL for the fiscal year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended September 30 | Pension Expense |
|---|---|
| 2017 | $ 60,801 |
| 2018 | 60,801 |
| 2019 | 109,981 |
| 2020 | 95,762 |
| 2021 | - |
| Thereafter | - |
| **Total** | $ 327,345 |

## D. Other Post Employment Benefits

### 1. 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, 2016, 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 2016, 2015, and 2014 were $964, $675, and $663, respectively. The City's contribution rates for the past three years are shown below:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Annual Req. Contrib. (Rate) | 0.04% | 0.03% | 0.03% |
| Actual Contribution Made | 0.04% | 0.03% | 0.03% |
| Percentage of ARC Contrib. | 100.00% | 100.00% | 100.00% |

## 2. 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.

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) | $ | 130,916 |
| Interest on net OPEB obligation | | 12,231 |
| Adjustment to the ARC | | (11,649) |
| Annual OPEB cost | | 131,498 |
| Contributions made | | (8,961) |
| Increase in net OPEB obligation | | 122,537 |
| Net OPEB obligation-beginning of year | | 349,455 |
| Net OPEB obligation-end of year | $ | 471,992 |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2016 and the two preceding years are as follows:

| Fiscal Year | Annual OPEB Cost (AOC) | Percentage of AOC Contributed | Net OPEB Obligation Beginning | Net OPEB Obligation Ending |
|---|---|---|---|---|
| 2014 | $ 64,469 | 3.41% | $ 226,121 | $ 288,394 |
| 2015 | $ 63,378 | 3.66% | $ 288,394 | $ 349,455 |
| 2016 | $ 131,498 | 6.81% | $ 349,455 | $ 471,992 |

Funded Status and Funding Progress

As of October 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $1,013,992 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $1,013,992.

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 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) | 7.80% / 5.00% |

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# *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, 2016**

| | Budgeted Amounts | | | Variance with Final Budget |
|---|---|---|---|---|
| | Original Budget | Budget as Amended | Actual | Positive (Negative) |
| **Revenues** | | | | |
| Ad valorem taxes | $ 2,325,554 | $ 2,325,554 | $ 2,519,246 | $ 193,692 |
| Sales taxes | 750,000 | 750,000 | 777,041 | 27,041 |
| Franchise and local taxes | 770,430 | 770,430 | 756,092 | (14,338) |
| Licenses and permits | 78,700 | 78,700 | 62,664 | (16,036) |
| Fines and forfeitures | 966,750 | 966,750 | 978,587 | 11,837 |
| Charges for services | 348,950 | 348,950 | 311,229 | (37,721) |
| Intergovernmental | 55,000 | 55,000 | 72,177 | 17,177 |
| Investment income | 7,000 | 7,000 | 21,943 | 14,943 |
| Other revenue | 168,670 | 168,670 | 139,050 | (29,620) |
| **Total Revenues** | 5,471,054 | 5,471,054 | 5,638,029 | 166,975 |
| **Expenditures** | | | | |
| **Current:** | | | | |
| General government | 667,607 | 689,604 | 674,266 | 15,338 |
| Public safety | 2,892,518 | 3,101,640 | 2,963,165 | 138,475 |
| Public works | 950,797 | 1,037,061 | 938,326 | 98,735 |
| Community services | 916,652 | 932,050 | 722,018 | 210,032 |
| **Capital outlay** | 3,595,000 | 3,595,000 | 511,108 | 3,083,892 |
| **Debt service:** | | | | |
| Principal | 49,729 | 54,551 | 44,817 | 9,734 |
| Interest and fiscal charges | - | 3,678 | 3,678 | - |
| **Total Expenditures** | 9,072,303 | 9,413,584 | 5,857,378 | 3,556,206 |
| **(Deficiency) of Revenues (Under) Expenditures** | (3,601,249) | (3,942,530) | (219,349) | 3,723,181 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | 3,595,000 | 3,595,000 | - | (3,595,000) |
| Capital lease | - | - | 44,601 | 44,601 |
| **Total Other Financing Sources** | 3,595,000 | 3,595,000 | 44,601 | (3,550,399) |
| **Net Change in Fund Balance** | $ (6,249) | $ (347,530) | (174,748) | $ 172,782 |
| Beginning fund balance | | | 10,038,255 | |
| **Ending Fund Balance** | | | $ 9,863,507 | |

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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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, 2016**

| | Measurement Year* | |
|---|---|---|
| | **2014** | **2015** |
| **Total Pension Liability** | | |
| Service cost | $ 205,392 | $ 212,876 |
| Interest (on the total pension liability) | 537,078 | 554,470 |
| Changes of benefit terms | - | - |
| Difference between expected and actual experience | (204,420) | (63,980) |
| Change of assumptions | - | 59,781 |
| Benefit payments, including refunds of employee contributions | (282,342) | (304,362) |
| **Net Change in Total Pension Liability** | 255,708 | 458,785 |
| Beginning total pension liability | 7,711,020 | 7,966,728 |
| **Ending Total Pension Liability** | $ 7,966,728 | $ 8,425,513 |
| **Plan Fiduciary Net Position** | | |
| Contributions - employer | $ 207,554 | $ 218,685 |
| Contributions - employee | 110,231 | 116,199 |
| Net investment income | 376,431 | 10,311 |
| Benefit payments, including refunds of employee contributions | (282,342) | (304,362) |
| Administrative expense | (3,930) | (6,280) |
| Other | (323) | (310) |
| **Net Change in Plan Fiduciary Net Position** | 407,621 | 34,243 |
| Beginning plan fiduciary net position | 6,579,859 | 6,987,480 |
| **Ending Plan Fiduciary Net Position** | $ 6,987,480 | $ 7,021,723 |
| **Net Pension Liability** | $ 979,248 | $ 1,403,790 |
| **Plan Fiduciary Net Position as a Percentage of Total Pension Liability** | 87.71% | 83.34% |
| **Covered Employee Payroll** | $ 2,204,612 | $ 2,323,974 |
| **Net Pension Liability as a Percentage of Covered Employee Payroll** | 44.42% | 60.40% |

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

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# CITY OF JACINTO CITY, TEXAS

## *SCHEDULE OF CONTRIBUTIONS*
## *TEXAS MUNICIPAL RETIREMENT SYSTEM*
**For the Year Ended September 30, 2016**

| | Fiscal Year* | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| Actuarially determined contribution | $ 206,531 | $ 211,732 | $ 230,156 |
| Contributions in relation to the actuarially determined contribution | (206,531) | (211,732) | (230,156) |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| Covered employee payroll | $ 2,209,560 | $ 2,250,078 | $ 2,577,210 |
| Contributions as a percentage of covered employee payroll | 9.35% | 9.41% | 8.93% |

*Only three years of information is currently available. The City will build this schedule over the next seven-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 | 30 years |
| Asset valuation method | 10 year smoothed market; 15% soft corridor |
| Inflation | 2.5% |
| Salary Increases | 3.50% to 10.5% including inflation |
| Investment rate of return | 6.75% |
| Retirement age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014. |
| Mortality | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. |

**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, 2016**

| 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% |
| 10/01/15 | $ - | $ 1,013,992 | $ 1,013,992 | 0.00% | $ 2,250,078 | 45.06% |

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***SCHEDULE***

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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, 2016**

| | Original and Final Budgeted Amounts | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|
| **Revenues** | | | |
| Ad valorem taxes | $ 488,500 | $ 493,556 | $ 5,056 |
| Investment income | - | 1,020 | 1,020 |
| Other revenue | - | 9,476 | 9,476 |
| **Total Revenues** | 488,500 | 504,052 | 15,552 |
| **Expenditures** | | | |
| Principal | 405,000 | 405,000 | - |
| Interest and fiscal charges | 83,500 | 83,500 | - |
| **Total Expenditures** | 488,500 | 488,500 | - |
| **Net Change in Fund Balance** | $ - | 15,552 | $ 15,552 |
| Beginning fund balance | | 54,023 | |
| **Ending Fund Balance** | | $ 69,575 | |

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