

CITY OF NATALIA, TEXAS  
ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended  
SEPTEMBER 30, 2015

CITY OF NATALIA, TEXAS  
Annual Financial Report  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

TABLE OF CONTENTS

**FINANCIAL SECTION**

- 1. Independent Auditor's Report
- 3. Management's Discussion and Analysis

***Basic Financial Statements:***

*Government-wide financial statements:*

- 13. Statement of Net Position
- 14. Statement of Activities

*Fund financial statements:*

- 15. Balance Sheet - Governmental Funds
- 16. Reconciliation of the Government Funds
- 17. Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
- 18. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
- 19. Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual-General Fund
- 20. Statement of Net Position - Proprietary Funds
- 22. Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
- 23. Statement of Cash Flows - Proprietary Funds
- 25. Notes to the Financial Statements

*Required Supplementary Information:*

- 52. Employees Retirement System Information

## FINANCIAL SECTION

**BEYER & Co.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**INDEPENDENT AUDITOR'S REPORT**

To the City Council  
City of Natalia, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Natalia, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Natalia, Texas, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Change in Accounting Principle

As discussed in Note G to the financial statements, in 2015 the City adopted new accounting guidance, *GASB Statement No. 68 Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Employees Retirement System Information on pages 3-12 and 52-54 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.



BEYER & COMPANY  
Certified Public Accountants  
June 18, 2016

## Management's Discussion and Analysis

As management of the City of Natalia, Texas, we offer readers of the City of Natalia, Texas' financial statements this narrative overview and analysis of the financial activities of the City of Natalia, Texas for the fiscal year ended September 30, 2015.

### Financial Highlights

- . The assets of the City of Natalia, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$2,195,324 (Net Position). Of this amount, \$172,137 or 8% (unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors.
- . The government's total Net Position increased by \$227,067. This increase is due mainly to a capital grant of \$217,550 and careful budget management.
- . The City of Natalia, Texas' total debt decreased by \$41,137 (18.13 percent) during the current fiscal year. The key factor was the payment of a tax note of \$40,000.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Natalia, Texas' basic financial statements. The City of Natalia, Texas' basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements:** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Natalia, Texas' finances, in a manner similar to a private-sector business.

The *statement of Net Position* presents information on all of the City of Natalia, Texas' assets and liabilities, with the difference between the two 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 of Natalia, Texas is improving or deteriorating.

The *statement of activities* presents information showing how the government'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*.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Natalia, Texas that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Natalia, Texas include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Natalia, Texas include a Utility System.

The government-wide financial statements include only the City of Natalia, Texas itself (known as the *primary government*.)

The government-wide financial statements can be found on pages 13-14 for this report.

**Fund financial statements:** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Natalia, Texas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All other funds of the City of Natalia, Texas can be divided into two categories: governmental funds and proprietary funds.

**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 a government'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 government'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 of Natalia, Texas maintains four 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, the veteran's memorial library fund, the NPD impound fund, and the municipal development district fund.

The City of Natalia, Texas adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on 15-19 of this report.

**Proprietary funds:** The City of Natalia, Texas maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Natalia, Texas uses enterprise funds to account for its Utility operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility operations, which is considered to be a major fund of the City of Natalia, Texas. The basic proprietary fund financial statements can be found on pages 20-24 of this report.

**Notes to the financial statements:** The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-51 of this report.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Natalia, Texas' progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 52-54 of this report.

### **Government-wide Financial Analysis**

As noted earlier, Net Position may serve over time as a useful indicator of a government's financial position. In the case of the City of Natalia, Texas, assets exceeded liabilities by \$2,195,324 at the close of the most recent fiscal year.

A significant portion of the City of Natalia, Texas' Net Position (85 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Natalia, Texas uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Natalia, Texas' 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 capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of *unrestricted Net Position*, \$172,137, may be used to meet the government's ongoing obligations to citizens and creditors.



**CITY OF NATALIA, TEXAS  
NET POSITION**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$171,385	\$221,170	\$180,706	\$116,421	\$352,091	\$337,591
Restricted Assets:	163,631	90,721	33,089	27,290	196,720	118,011
Capital Assets:	273,122	308,928	1,731,369	1,588,244	2,004,491	1,897,172
Total Assets	608,138	620,819	1,945,164	1,731,955	2,553,302	2,352,774
Total Deferred Outflows of Resources	16,425	13,352	9,108	7,403	25,533	20,755
Long-term Liabilities	105,819	131,425	79,996	95,527	185,815	226,952
Other Liabilities (Payable from Restricted Assets)	0	0	56,999	52,923	56,999	52,923
Other Liabilities	42,646	31,104	92,380	94,293	135,026	125,397
Total Liabilities	148,465	162,529	229,375	242,743	377,840	405,272
Total Deferred Inflows of Resources	3,648		2,023		5,671	0
Invested in Capital Assets, Net of Related Debt	193,074	204,317	1,662,867	1,588,244	1,855,941	1,792,561
Restricted	167,246	83,140		617	167,246	83,757
Unrestricted	112,130	184,185	60,007	(92,246)	172,137	91,939
Total Net Position	\$472,450	\$471,642	\$1,722,874	\$1,496,615	\$2,195,324	\$1,968,257

At the end of the current fiscal year, the City of Natalia, Texas is able to report positive balances in all three categories of Net Position for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year. The business-type activities showed a positive balance for the Invested in Capital Assets, Net of Related debt for the current year and the prior year but showed negative balances in unrestricted Net Position for the prior year.

There was an increase of \$83,489 in restricted Net Position reported in connection with the City of Natalia, Texas' governmental and business-type activities. This increase is the result of Municipal Development District sales tax monies of \$70,472.

The government's total Net Position increased by \$227,067. This increase is due mainly to a capital grant of \$275,000 and careful budget management.

**Governmental activities:** Governmental activities increased the City of Natalia, Texas' Net Position by \$808, thereby accounting for .36 percent of the total increase in the Net Position of the City of Natalia, Texas. This increase is immaterial. However, total income decreased by \$1,801 while expenses decreased by \$50,358 and net transfers out increased by \$66,068.

**CITY OF NATALIA, TEXAS**  
**CHANGE IN NET POSITION**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Charges for Services	\$59,147	\$127,236	\$593,647	\$549,611	\$652,794	\$676,847
Operating Grants and Contributions	28,582	28,584			28,582	28,584
Capital Grants and Contributions			275,000	57,450	275,000	57,450
General Revenues:						
Maintenance and Operations Taxes	273,576	260,362			273,576	260,362
Sales Taxes	221,766	142,649			221,766	142,649
Franchise Taxes	53,067	47,249			53,067	47,249
Licenses and Permits	0	0			0	0
Unrestricted Investment Earnings	317	140	316	165	633	305
Miscellaneous	13,428	45,464			13,428	45,464
Total Revenue	649,883	651,684	868,963	607,226	1,518,846	1,258,910
Expenses:						
General Administration	270,036	\$317,582			270,036	317,582
Public Safety	301,766	284,487			301,766	284,487
Public Transportation	8,206	13,178			8,206	13,178
Culture and Recreation	5,930	17,781			5,930	17,781
Interest and Fiscal Charges	4,983	8,251			4,983	8,251
Utility			700,858	654,189	700,858	654,189
Total Expenses	590,921	641,279	700,858	654,189	1,291,779	1,295,468
Increase in Net Position before transfers and special items	58,962	10,405	168,105	(46,963)	227,067	(36,558)
Transfers	(58,154)	7,914	58,154	(7,914)	0	0
Increase in Net Position	808	18,319	226,259	(54,877)	227,067	(36,558)
Net Position at 09/30/2014 - Restated	471,642	453,323	1,496,615	1,551,492	1,968,257	2,004,815
Net Position at 09/30/2015	\$472,450	\$471,642	\$1,722,874	\$1,496,615	\$2,195,324	\$1,968,257

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
Government Activities:			
General Administration	\$270,036	\$300	\$0
Public Safety	301,766	57,877	28,582
Public Transportation	8,206		
Culture and Recreation	5,930	970	
Interest and Fiscal Charges	4,983		
Total Government Activities	\$590,921	\$59,147	\$28,582

Revenues by source - Governmental Activities

	<u>REVENUES</u>	<u>%</u>
Charges for Services	\$59,147	9%
Operating Grants and Contributions	28,582	4%
Maintenance and Operations Taxes	273,576	42%
Sales Taxes	221,766	34%
Franchise Taxes	53,067	8%
Unrestricted Investment Earnings	317	0%
Miscellaneous	13,428	2%
	<u>\$649,883</u>	<u>100%</u>

For the most part, increases and decreases in expenses closely paralleled inflation and growth or decline in the demand for services.

**Business-type activities:** Business-type activities increased the City of Natalia, Texas' Net Position by \$217,550, accounting for 99.64 percent of the total increase in the government's Net Position. Key elements of this increase are as follows: a capital grant of \$275,000 and careful budget management.

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
<b>Primary Government</b>			
Business-Type Activities:			
Utility	\$700,858	\$593,647	\$275,000
Total Business-Type Activities	\$700,858	\$593,647	\$275,000

Revenues by Source - Business-Type Activities

	REVENUES	%
Charges for Services	\$593,647	68%
Capital Grants and Contributions	275,000	32%
Unrestricted Investment Earnings	316	0%
	\$868,963	100%

## Financial Analysis of the Government's Funds

As noted earlier, the City of Natalia, Texas uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the City of Natalia, Texas' governmental funds reported combined ending fund balances of \$169,561, an increase of \$42,393 in comparison with the prior year. Approximately 00% of this total amount (a minus \$3,968) constitutes *unassigned fund balance*, which is available for spending at the government's discretion

The general fund is the chief operating fund of the City of Natalia, Texas. At the end of the current fiscal year, unassigned fund balance of the general fund was a negative \$3,968, while total fund balance reached \$13,579. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned, undesignated fund balance represents 0 percent of total general fund expenditures, while total fund balance represents 3 percent of that same amount.

The fund balance of the City of Natalia, Texas' general fund decreased by \$177,423 during the current fiscal year. This decrease is mainly attributable to an "operating transfer" out of \$58,154, a "transfer out" of \$80,933, and a "residual equity transfer out" of \$71,850.

At the end of the current fiscal year the restricted fund balance of the NPD Impound fund was \$10,438, while total fund balance reached a minus \$10,438. As a measure of the NPD Impound fund's liquidity, it may be useful to compare both restricted fund balance and total fund balance to total fund expenditures. Restricted fund balance represents 236 percent of total NPD Impound fund expenditures, while total fund balance represents 236 percent of that same amount.

The fund balance of the City of Natalia, Texas' NPD Impound fund decreased by \$64,355 during the current fiscal year. Key factor in this decrease is as follows: A "transfer in" of \$68,777.

At the end of the current fiscal year the restricted fund balance of the veteran's memorial library fund was \$2,993, while total fund balance reached \$2,993. As a measure of the veteran's memorial library fund's liquidity, it may be useful to compare both restricted fund balance and total fund balance to total fund expenditures. Restricted fund balance represents 63 percent of total veteran's memorial library fund expenditures, while total fund balance represents 63 percent of that same amount.

The fund balance of the City of Natalia, Texas' veteran's memorial library fund increased by \$12,910 during the current fiscal year. Key factor in this increase is as follows: A "transfer in" of \$12,156.

At the end of the current fiscal year the restricted fund balance of the municipal development district fund was \$142,551, while total fund balance reached \$142,551. As a measure of the municipal development district fund's liquidity, it may be useful to compare both restricted fund balance and total fund balance to total fund expenditures. Restricted fund balance represents 8,385.36 percent of total municipal development district fund expenditures, while total fund balance represents 8,385.36 percent of that same amount.

The fund balance of the City of Natalia, Texas' municipal development district fund increased by \$142,551 during the current fiscal year. Key factor in this increase is as follows: An "equity transfer in" of \$71,850 and sales taxes of \$70,472.

***Proprietary funds:*** The City of Natalia, Texas' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted Net Position of the Utility Fund at the end of the year amounted to \$60,007. The total increase in Net Position for the Utility Fund was \$226,259. Key factors in this overall increase are examined above.

## General Fund Budgetary Highlights

During the year there was an increase in appropriations between the original and final amended budget for the general fund of \$4,600. This increase was fairly representative amongst the departments. The overall budgeted expenditures were \$603,787 while the actual expenditures were \$597,055 thus resulting in a budget underage of \$6,732.

## Capital Asset and Debt Administration

**Capital assets:** The City of Natalia, Texas' investment in capital assets for its governmental and business-type activities as of September 30, 2015, amounts to \$2,004,491 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Natalia, Texas' investment in capital assets for the current fiscal year was \$107,319 or 6 percent (a 12 percent decrease for governmental activities and a 9 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following: The City had a Wastewater Improvement Project during the year. This project was completed at year's end and was operational in the 2016 year.

## City of Natalia, Texas' Capital Assets (Net of depreciation)

### CITY OF NATALIA, TEXAS CAPITAL ASSETS (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$13,400	\$13,400	\$15,570	\$15,570	\$28,970	\$28,970
Construction in Progress	0	0	350,315	57,450	350,315	57,450
Building and improvements	210,009	224,731	49,885	51,207	259,894	275,938
Intangible	29,955	31,827	0	0	29,955	31,827
Machinery and equipment	19,758	38,970	49,835	66,835	69,593	105,805
Infrastructure	0	0	0	0	0	0
Distribution System	0	0	1,265,764	1,397,182	1,265,764	1,397,182
Total	\$273,122	\$308,928	\$1,731,369	\$1,588,244	\$2,004,491	\$1,897,172

Additional information of the City of Natalia, Texas' capital assets can be found in note IV.C on pages 37-38 of this report.

**Long-term debt:** At the end of the current fiscal year, the City of Natalia, Texas had the following outstanding bonded debt.

#### **City of Natalia, Texas' Outstanding Bonded Debt**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>	<u>Due after one year</u>
<u>Governmental activities:</u>						
Tax Notes	\$85,000	\$0	\$40,000	\$45,000	\$45,000	\$0
	85,000	0	40,000	45,000	45,000	0
Grand Total	\$85,000	\$0	\$40,000	\$45,000	\$45,000	\$0

The City of Natalia, Texas' total bonded debt decreased by \$40,000 during the current fiscal year. This was a result of a bond payment of \$40,000.

Additional information on the City of Natalia, Texas' long-term debt can be found in note IV.F on pages 39-41 of this report.

#### **Economic Factors**

The influx of business resulting from the Eagle Ford Shale had had an impact on the City and will continue to have an impact for the foreseeable future.

#### **Requests for Information**

This financial report is designed to provide a general overview of the City of Natalia, Texas' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Department; P.O. Box 270; Natalia, Texas 78059.

## BASIC FINANCIAL STATEMENTS



GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF NATALIA, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$47,326	\$81,176	\$128,502
Receivables (net of allowance for uncollectibles)	124,059	99,400	223,459
Prepaid Expenses		130	130
Restricted Assets:			
Cash and Cash Equivalents	163,631	33,089	196,720
Capital Assets Not Being Depreciated:			
Land	13,400	15,570	28,970
Construction in Progress		350,315	350,315
Total Capital Assets Being Depreciated, Net			
Building and Improvements	210,009	49,885	259,894
Intangible	29,955		29,955
Machinery and Equipment	19,758	49,835	69,593
Distribution System		1,265,764	1,265,764
Total Assets	<u>\$608,138</u>	<u>\$1,945,164</u>	<u>\$2,553,302</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflow of Resources-Contributions (after 12/31/14)	15,333	8,502	23,835
Deferred Outflow-Investment Experience	1,092	606	1,698
Total Deferred Inflows of Resources	<u>16,425</u>	<u>9,108</u>	<u>25,533</u>
<b>LIABILITIES:</b>			
Accounts Payable	\$36,389	\$73,883	\$110,272
Accrued Wages	5,007	3,930	8,937
Interest Payable	1,250		1,250
Deferred Revenues		14,567	14,567
Consumer Meter Deposit		56,999	56,999
Noncurrent Liabilities:			
Due Within One Year	89,927	12,901	102,828
Due in More Than One Year	15,892	67,095	82,987
Total Liabilities	<u>148,465</u>	<u>229,375</u>	<u>377,840</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflow-Actual Experience vs. Assumption	3,648	2,023	5,671
Total Deferred Inflows of Resources	<u>3,648</u>	<u>2,023</u>	<u>5,671</u>
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	193,074	1,662,867	1,855,941
Restricted			
Debt Service	3,000		3,000
Municipal Court Reserve	11,157		11,157
Municipal Development	142,651		142,651
Public Safety	10,438		10,438
Unrestricted	112,130	60,007	172,137
Total Net Position	<u>\$472,450</u>	<u>\$1,722,874</u>	<u>\$2,195,324</u>

The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in		Net (Expense) Revenue and
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
<b>Primary Government</b>						
Government Activities:						
General Administration	\$270,036	\$300		\$0	(\$269,736)	(\$269,736)
Public Safety	301,766	57,877	28,582		(215,307)	(215,307)
Public Transportation	8,206				(8,206)	(8,206)
Culture and Recreation	5,930	970			(4,960)	(4,960)
Interest and Fiscal Charges	4,983				(4,983)	(4,983)
Total Government Activities	590,921	59,147	28,582	0	(503,192)	0
Business-Type Activities:						
Utility	700,858	593,647		275,000		167,789
Total Business-Type Activities	700,858	593,647	0	275,000	0	167,789
Total Primary Government	\$1,291,779	\$652,794	\$28,582	\$275,000	(503,192)	167,789
General Revenues						
Property Taxes, Levies for General Purposes					273,576	273,576
Sales Taxes					221,766	221,766
Franchise Taxes					53,067	53,067
Unrestricted Investment Earnings					317	316
Miscellaneous					13,428	13,428
Transfers					(58,154)	58,154
Total General Revenues and Transfers					504,000	58,470
Change in Net Position					808	226,259
Net Position - Beginning - Restated					471,642	1,496,615
Net Position - Ending					\$472,450	\$1,722,874

The accompanying notes are an integral part of this statement.

## FUND FINANCIAL STATEMENTS

CITY OF NATALIA, TEXAS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2015

	General Fund	NPD Impound Fund	Veteran's Memorial Library Fund	Municipal Development District Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$36,888	\$10,438	\$0	\$0	\$47,326
Receivables (net of allowance for uncollectibles)	93,565				93,565
Restricted Assets:					
Cash and Cash Equivalents	17,547		3,533	142,551	163,631
<b>Total Assets</b>	<b>\$148,000</b>	<b>\$10,438</b>	<b>\$3,533</b>	<b>\$142,551</b>	<b>\$304,522</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
Accounts Payable	\$35,849		\$540		\$36,389
Accrued Wages	5,007				5,007
<b>Total Liabilities</b>	<b>40,856</b>	<b>0</b>	<b>540</b>	<b>0</b>	<b>41,396</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue-Property Taxes					
<b>Total deferred inflows of resources</b>	<b>93,565</b>				<b>93,565</b>
<b>Fund Balances:</b>					
Restricted					
Debt Service	3,000				3,000
Municipal Court Reserve	11,157				11,157
Municipal Development	100			142,551	142,651
Public Safety		10,438			10,438
Committed					
Centennial	3,290				3,290
Library			2,993		2,993
Unassigned	(3,968)				(3,968)
<b>Total Fund Balance</b>	<b>13,579</b>	<b>10,438</b>	<b>2,993</b>	<b>142,551</b>	<b>169,561</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$148,000</b>	<b>\$10,438</b>	<b>\$3,533</b>	<b>\$142,551</b>	<b>\$304,522</b>

The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015

Total Fund Balances - governmental funds balance sheet	\$169,561
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Amounts reported for governmental activities in the statement of Net Position  
("SNA") are different because:

Capital assets used in governmental activities are not reported in the funds.	273,122
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	93,565
Deferred Outflow of Resources-Contribution.	15,333
Deferred Outflow-Investment Experience.	1,092
Deferred Outflow-Actual Experience vs. Assumption.	(3,648)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	30,494
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(107,069)

Net Position of governmental activities - statement of Net Position	<u>\$472,450</u>
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The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
YEAR ENDED SEPTEMBER 30, 2015

	General Fund	NPD Impound Fund	Veteran's Memorial Library Fund	Municipal Development District Fund	Total Governmental Funds
<b>REVENUES</b>					
Taxes					
Property	\$265,695	\$0	\$0	\$0	\$265,695
Sales	151,294			70,472	221,766
Franchise	53,067				53,067
Intergovernmental	28,582				28,582
Charges for Services	16,023				16,023
Fines and Forfeitures	82,925				82,925
Interest	63	8		246	317
Miscellaneous	7,920		5,508		13,428
Total Revenues	605,569	8	5,508	70,718	681,803
<b>EXPENDITURES</b>					
Current:					
General Administration	259,112			17	259,129
Public Safety	273,471	4,430			277,901
Public Transportation	8,206				8,206
Culture and Recreation	609		4,754		5,363
Debt Service					
Principal Retirement	49,564				49,564
Interest Retirement	6,093				6,093
Total Expenditures	597,055	4,430	4,754	17	606,256
Excess (Deficiency) of Revenues Over (Under) Expenditures	8,514	(4,422)	754	70,701	75,547
<b>OTHER FINANCING SOURCES (USES):</b>					
Other Financing Sources - Notes Payable	25,000				25,000
Residual Equity Transfer In				71,850	71,850
Residual Equity Transfer Out	(71,850)				(71,850)
Transfer In		68,777	12,156		80,933
Transfer Out	(80,933)				(80,933)
Operating Transfers In	(58,154)				(58,154)
Total Other Financing Sources (Uses)	(185,937)	68,777	12,156	71,850	(33,154)
Net Changes in Fund Balances	(177,423)	64,355	12,910	142,551	42,393
Fund Balances - Beginning	191,002	(53,917)	(9,917)	0	127,168
Fund Balances - Ending	\$13,579	\$10,438	\$2,993	\$142,551	\$169,561

The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2015

Net Changes in Fund Balances - total governmental funds \$42,393

Amounts reported for governmental activities in the statement of Net Position  
("SNA") 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. This is the amount by which capital outlays exceeded depreciation in the current period.	(35,806)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	7,881
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.	(39,801)
Deferred Outflow of Resources-Contribution. This is the change in these amounts this year.	1,981
Deferred Outflow-Investment Experience. This is the change in these amounts this year.	1,092
Deferred Outflow-Actual Experience vs. Assumption. This is the change in these amounts this year.	(3,648)
Increase in loan principal are receipts in the funds but not revenue in the SOA.	(25,000)
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	49,563
(Increase) decrease in Compensated Absences Payable from beginning of period to end of period.	(3,214)
(Increase) decrease in Accrued Interest Payable from beginning of period to end of period.	1,110
(Increase) decrease in Net Pension Liability from beginning of period to end of period.	4,257
Change in Net Position of governmental activities - statement of activities	<u>\$808</u>

The accompanying notes are an integral part of this statement.



CITY OF NATALIA, TEXAS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Budgetary	Variance with Final Budget - Positive
	Original	Final	Basis	(Negative)
REVENUES				
Taxes				
Property	\$281,835	\$281,835	\$265,695	(\$16,140)
Sales	150,000	150,000	151,294	1,294
Franchise	45,000	58,000	53,067	(4,933)
Intergovernmental	27,252	27,252	28,582	1,330
Charges for Services	4,500	4,000	16,023	12,023
Fines and Forfeitures	90,000	80,000	82,925	2,925
Interest	0	0	63	63
Miscellaneous	900	3,500	7,920	4,420
Total Revenues	599,487	604,587	605,569	982
EXPENDITURES				
Current:				
General Administration				
General Administration	256,184	258,300	259,112	(812)
Records Management	250	250	0	250
Miscellaneous	10,557	10,557	0	10,557
Public Safety				
Animal Control	400	850	578	272
Police	260,196	260,095	262,653	(2,558)
Municipal Court	8,500	10,635	10,240	395
Culture and Recreation				
Parks	1,000	1,000	609	391
Public Transportation				
Streets	17,000	17,000	8,206	8,794
Debt Service				
Principal Retirement	40,000	40,000	49,564	(9,564)
Interest Retirement	5,100	5,100	6,093	(993)
Total Expenditures	599,187	603,787	597,055	6,732
Excess (Deficiency) of Revenues Over (Under) Expenditures	300	800	8,514	7,714
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	0	0	(58,154)	(58,154)
Total Other Financing Sources (Uses)	0	0	(58,154)	(58,154)
Net Changes in Fund Balances - Budgetary Basis	\$300	\$800	(49,640)	(\$50,440)
Reconciliation from cash basis to modified accrual:				
Other Financing Sources - Notes Payable			25,000	
Residual Equity Transfer Out			(71,850)	
Transfer Out			(80,933)	
Net Changes in Fund Balances-Modified Accrual Basis			(177,423)	
Fund Balances - Beginning			191,002	
Fund Balances - Ending			\$13,579	

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

CITY OF NATALIA, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2015

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$81,176	\$58,460	\$81,176
Accounts Receivables (net of allowance for uncollectibles)	99,400	57,961	99,400
Prepaid Expenses	130		130
Total Current Assets	180,706	116,421	180,706
Noncurrent Assets			
Restricted Assets:			
Cash and Cash Equivalents - Disposal Fees	0	617	0
Cash and Cash Equivalents - Water Meters	33,089	26,673	33,089
Total Restricted Assets	33,089	27,290	33,089
Capital Assets			
Land	15,570	15,570	15,570
Construction in Progress	350,315	57,450	350,315
Buildings and Improvements	62,734	62,734	62,734
Machinery and Equipment	135,304	137,342	135,304
Distribution System	4,718,583	4,766,713	4,718,583
Total Capital Assets	5,282,506	5,039,809	5,282,506
Less Accumulated Depreciation			
Total Capital Assets (net of accumulated depreciation)	(3,551,137)	(3,451,565)	(3,551,137)
	1,731,369	1,588,244	1,731,369
Total Noncurrent Assets	1,731,369	1,588,244	1,731,369
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow of Resources-Contributions (after 12/31/13)		7,403	0
Deferred Outflow of Resources-Contributions (after 12/31/14)	8,502		8,502
Deferred Outflow-Investment Experience	606		606
Total Deferred Outflow of Resources	9,108	7,403	9,108
TOTAL ASSETS	\$1,954,272	\$1,739,358	\$1,954,272

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BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities			
Current Liabilities (Payable from Current Assets)			
Accounts Payable	\$73,883	\$56,583	\$73,883
Accrued Wages	3,930	2,518	3,930
Compensated Absences	2,682	4,355	2,682
Consumer Deposit	0	20,625	0
Deferred Revenues	14,567	14,567	14,567
Capital Leases - Current	10,219	11,498	10,219
Total Current Liabilities (Payable from Current Assets)	105,281	110,146	105,281
Current Liabilities (Payable from Restricted Assets)			
Consumer Meter Deposits	56,999	52,923	56,999
Total Current Liabilities			
Payable from Restricted Assets	56,999	52,923	56,999
Noncurrent Liabilities			
Net Pension Liability	8,812	11,172	8,812
Capital Lease Payable	58,283	68,502	58,283
Total Noncurrent Liabilities	67,095	79,674	67,095
Total Liabilities	229,375	242,743	229,375
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Inflow-Actual Experience vs. Assumption	2,023		2,023
Total Deferred Inflow of Resources	2,023	0	2,023
Invested in Capital Assets, Net of Related Debt	1,662,867	1,508,244	1,662,867
Restricted for:			
Disposal Fees - Non-Expendable	0	617	0
Unrestricted	60,007	(12,246)	60,007
Total Net Position	\$1,722,874	\$1,496,615	\$1,722,874

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

CITY OF NATALIA, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
OPERATING REVENUES:			
Charges for Services - Water	\$244,256	\$231,846	\$244,256
Charges for Services - Sewer	134,653	129,102	134,653
Charges for Services - Garbage	127,470	107,630	127,470
Charges for Services - General Fees	44,282	44,364	44,282
Charges for Services - Other	29,946	27,424	29,946
Miscellaneous	13,040	9,245	13,040
Total Operating Revenues	593,647	549,611	593,647
OPERATING EXPENSES:			
Personal Services	214,634	192,134	214,634
Supplies	38,485	33,653	38,485
Other Services and Charges	201,259	202,023	201,259
Sanitation services	115,770	92,353	115,770
Depreciation	130,710	134,026	130,710
Total Operating Expenses	700,858	654,189	700,858
Operating Income (Loss)	(107,211)	(104,578)	(107,211)
NON-OPERATING REVENUES (EXPENSES):			
Interest Income	316	165	316
Intergovernmental	275,000	57,450	275,000
Total Non-Operating Revenues (Expenses)	275,316	57,615	275,316
Income Before Contributions and Transfers	168,105	(46,963)	168,105
Transfers In (Out) - Net	58,154	(7,914)	58,154
Change in Net Position	226,259	(54,877)	226,259
Total Net Position - Beginning - Restated	1,496,615	1,551,492	1,496,615
Total Net Position - Ending	\$1,722,874	\$1,496,615	\$1,722,874

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

CITY OF NATALIA, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Cash Flows from Operating Activities			
Receipts from Customers and Users	\$535,659	\$492,251	\$535,659
Payments to Suppliers	(338,026)	(348,530)	(338,026)
Payments to Employees	(217,255)	(190,564)	(217,255)
Net Cash Provided (Used) by Operating Activities	(19,622)	(46,843)	(19,622)
Cash Flows from Non-Capital and Related Financing Activities			
Transfers Out	58,154	(7,914)	58,154
Intergovernmental	275,000	57,450	275,000
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	333,154	49,536	333,154
Cash Flows from Capital and Related Financing Activities			
Principal Payment on Revenue Bonds, Notes and Capital Leases	(11,499)	0	(11,499)
Proceeds from Capital Debt		80,000	0
Purchases of Capital Assets	(273,834)	(137,286)	(273,834)
Net Cash Provided (Used) by Capital and Related Financing Activities	(285,333)	(57,286)	(285,333)
Cash Flows from Investing Activities			
Interest Received	316	165	316
Net Cash Provided (Used) by Investment Activities	316	165	316
Net Increase (Decrease) in Cash Equivalents	28,515	(54,428)	28,515
Cash and Cash Equivalents at Beginning of Year	85,750	140,178	85,750
Cash and Cash Equivalents at End of Year	\$114,265	\$85,750	\$114,265
Restricted Cash	\$33,089	\$27,290	\$33,089
Unrestricted Cash	81,176	58,460	81,176
	\$114,265	\$85,750	\$114,265

(continued)

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BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income (Loss)	(\$107,211)	(\$104,578)	(\$107,211)
Adjustments to Reconcile to Net Cash Flow			
Non-Cash Items Included in Net Income			
Depreciation	130,710	134,026	130,710
Changes in Current Items			
Decrease (Increase) in Accounts Receivable	(41,439)	762	(41,439)
Decrease (Increase) in Prepaid Expenses	(130)	0	(130)
Decrease (Increase) Deferred Outflow of Resources-Contributions	(1,099)		(1,099)
Decrease (Increase) Deferred Outflow-Investment Experience	(606)		(606)
Decrease (Increase) Deferred Outflow-Actual Exp. vs. Assumption	2,023		2,023
Increase (Decrease) in Accounts Payable	17,300	(20,501)	17,300
Increase (Decrease) in Accrued Wages	1,412	1,001	1,412
Increase (Decrease) in Compensated Absences	(1,673)	569	(1,673)
Increase (Decrease) in Consumer Deposits	(20,625)	(13,125)	(20,625)
Increase (Decrease) in Deferred Revenues	0	(57,450)	0
Increase (Decrease) in Consumer Meter Deposits	4,076	12,453	4,076
Increase (Decrease) in Net pension Liability	(2,360)		(2,360)
			0
Net Cash Provided (Used)			
By Operating Activities	(\$19,622)	(\$46,843)	(\$19,622)
Noncash Investing, Capital, and Financing Activities:			
Capital Lease	\$0	\$80,000	\$0
Federal Grant	275,000	57,450	275,000
	\$275,000	\$137,450	\$275,000

Note: The above funds are all Enterprise Funds.

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

CITY OF NATALIA, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

I. Summary of significant accounting policies

A Reporting entity/ Basis of Accounting/Measurement Focus

The City of Natalia, Texas, was incorporated by an election. The City operates under a General Law type of government and provides the following services: public safety (fire, ambulance, and law enforcement), public transportation (streets), health, culture, recreation, public facilities, legal, election functions, and general administrative services. The accounting policies of the City of Natalia, Texas, (the City) conform to generally accepted accounting principles. The City also applies all relevant Government Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The accounting policies of the City of Natalia, Texas, (the City) conform to generally accepted accounting principles generally accepted in the United States of America. The City also applies all relevant Government Accounting Standards Board (GASB) pronouncements.

B. Government-wide and fund financial statements

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

### C. Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the Net Position and changes in Net Position presented in the Government-Wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. (The City’s deferred outflows of resources and deferred inflows of resources are noncurrent.) The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The government reports the following major governmental funds:

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

The NPD Impound fund is used to collect monies from impounding vehicles to be used for law enforcement purposes.

The veteran’s memorial library fund is used to collect monies for the operation of the city library.

The municipal development district fund is used to collect monies for Municipal Development.



#### D. Proprietary fund financial statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and for the non-major funds aggregated.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The government reports the following major proprietary funds:

The utility fund accounts for the activities of the government's water and sewer operations.

## E. Assets, liabilities, and Net Position or equity

### 1. Deposits and investments

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

### 2. Receivables and payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Current trade accounts receivable allowance is equal to 1 percent of outstanding utility billings at September 30, 2015, trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding utility billings at September 30, 2015, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding utility billings at September 30, 2015, the trade accounts receivable allowance in excess of 90 days is equal to 25 percent of outstanding utility billings at September 30, 2015, and the trade accounts receivable allowance in excess of 120 days is equal to 75 percent of outstanding utility billings at September 30, 2015. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2015, and 10 percent of delinquent outstanding property taxes at September 30, 2015.

Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

### 3. Inventories and prepaid items

Inventories are considered immaterial and, therefore, there were no inventory items at September 30, 2015.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. There were prepaid items at September 30, 2015.

#### 4. Restricted assets

Certain assets are classified as restricted assets because their use is restricted by applicable contract covenants.

The restricted assets consist of the following cash items:

	Governmental Activities	Business-type Activities	Total
Restricted for:			
Debt Service	3,000		\$3,000
Municipal Court Reserve	11,157		11,157
Municipal Development	142,651		142,651
Centennial	3,290		3,290
Library	3,533		3,533
Meters		33,089	33,089
Total	\$163,631	\$33,089	\$196,720

#### 5. 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. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City had a Wastewater Improvement Project during the year. This project was completed at year's end and was operational in the 2016 year.

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

<b>Asset</b>	<b>Years</b>
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

## 6. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds.

## 7. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond 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.

## 8. Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

## 9. 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 government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in 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.

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 government 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 two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

## 10. Net position flow assumption

Sometimes the government 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 government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

## 11. Fund Balances – Governmental Funds

As of September 30, 2015, fund balances of the governmental funds are classified as follows:

**Restricted** — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed** — amounts that can be used only for specific purposes determined by a formal action of City Council. City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by City Council.

**Unassigned** — all other spendable amounts.

As of September 30, 2015, fund balances are composed of the following:

Fund Balances:	
Restricted	
Debt Service	\$3,000
Municipal Court Reserve	11,157
Municipal Development	142,651
Public Safety	10,438
Committed	
Centennial	3,290
Library	2,993
Unassigned	(3,968)
Total Fund Balance	<u>\$169,561</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council or the finance committee has provided otherwise in its commitment or assignment actions. In fiscal year 2011, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year end to be at least equal to 15 to 25 percent of the subsequent year's budgeted General Fund expenditures.

## II. Reconciliation of government-wide and fund financial statements

### A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of Net Position

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$107,069 difference are as follows:

Compensated Absences	\$9,879
Interest Payable	1,250
Notes Payable	25,000
Tax Notes	45,000
Net Pension Liability	15,892
Capital Lease	10,048
	<u>\$107,069</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.)" The details of this \$93,565 difference are as follows:

Property Taxes Receivable	\$101,772
Allowance for Doubtful Accounts	<u>(8,207)</u>
Net	<u>\$93,565</u>

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in Net Position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this \$273,122 difference are as follows:

Capital assets not being depreciated	\$13,400
Capital assets being depreciated	802,848
Depreciation expense	(543,126)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in Net Position of governmental activities	<u>\$273,122</u>

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of Net Position (continued)

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that "Municipal fines and fees receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.\*)" The details of this \$30,494 difference are as follows:

Fines and Fees Receivable	\$236,932
Allowance for Doubtful Accounts	<u>(206,438)</u>
Net	<u>\$30,494</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in Net Position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this \$35,806 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	\$0
Capital Outlay - Additions - Being Depreciated	0
Capital Outlay - Deletions	0
Depreciation Expense	(35,806)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities	<u><u>(\$35,806)</u></u>

### III. Stewardship, compliance, and accountability

#### A. Budgetary information

The City Manager has been authorized by the council to prepare the budget. The budget is adopted on budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council. The budget is adjusted by the City Council if desired. Then a final budget is prepared by the City Manager. A public hearing is held on the budget by the City Council. Department heads may appear. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. Amounts finally budgeted may not exceed the estimate of revenues and available cash. Appropriations lapse at year end.

When the budget is adopted by the City Council, the City Manager is responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the fund. Expenditures can exceed appropriations as long as they do not exceed available revenues and cash balances. The legal level of control (the level on which the City Council must approve over expenditures) is on an object class basis.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (IE. the level at which expenditures may not legally exceed appropriations) is the department level.

#### B. Excess of expenditures over appropriations

For the year ended September 30, 2015, excess of expenditures over appropriations did not occur in the general fund.

#### C. Deficit fund equity

The City did not have a deficit fund balance as of September 30, 2015.



#### IV. Detailed notes on all funds

##### A. Deposits and investments

###### Legal and Contractual Provisions Governing Deposits and Investments

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

###### Policies Governing Deposits and Investments

The City has a depository contract with its depository bank and has adopted an investment policy. That City does address the following risks:

**Custodial Credit Risk - Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City is not exposed to custodial credit risk because during the year the City was fully covered by either depository insurance and/or collateral held by the government's agent in the government's name. The total amount of cash in the bank at September 30, 2015 is \$324,188 while the total pledged securities are \$419,877 and the FDIC insurance coverage is \$280,278. The book balance was \$325,222. As of September 30, 2015, the city had no investments.

## B. Receivables

Receivables as of year end for the government's individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Utility	Total
<u>Receivables</u>			
Taxes	\$101,772		\$101,772
Charges for Services		57,113	57,113
Intergovernmental		38,411	38,411
Fines	236,932		236,932
Other		6,834	6,834
Gross receivables	338,704	102,358	441,062
Less: Allowance for uncollectibles	214,645	2,958	217,603
Net total receivables	<u>\$124,059</u>	<u>\$99,400</u>	<u>\$223,459</u>

The government's funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unearned Revenue</u>
Delinquent Property Taxes	
Receivable (General Fund)-Net	\$ 93,565
Total Deferred/Unearned	
Revenue for Governmental Funds	<u>\$ 93,565</u>

## C. Capital assets

Capital asset activity for the year ended September 30, 2015 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$13,400	\$0	\$0	\$13,400
Total capital assets not being depreciated	13,400	0	0	13,400
Capital assets being depreciated:				
Building and improvements	294,445	0	0	294,445
Intangible	76,324	0	38,881	37,443
Machinery and equipment	217,710	0	0	217,710
Infrastructure	253,250	0	0	253,250
Total capital assets being depreciated	841,729	0	38,881	802,848
Less accumulated depreciation for:				
Building and improvements	69,714	14,722	0	84,436
Intangible	44,497	1,872	38,881	7,488
Machinery and equipment	178,740	19,212	0	197,952
Infrastructure	253,250	0	0	253,250
Total accumulated depreciation	546,201	35,806	38,881	543,126
Total Capital assets being depreciated, net	295,528	(35,806)	0	259,722
Governmental activities capital assets, net	\$308,928	(\$35,806)	\$0	\$273,122
Business-type activities:				
Capital assets not being depreciated:				
Land	\$15,570	\$0	\$0	\$15,570
Construction in Progress	57,450	292,865	0	350,315
Total capital assets not being depreciated	73,020	292,865	0	365,885
Capital assets being depreciated:				
Building and improvements	62,734	0	0	62,734
Machinery and equipment	137,342	0	2,038	135,304
Distribution System	4,766,713	0	48,130	4,718,583
Total capital assets being depreciated	4,966,789	0	50,168	4,916,621
Less accumulated depreciation for:				
Building and improvements	11,527	1,322	0	12,849
Machinery and equipment	70,507	17,000	2,038	85,469
Distribution System	3,369,531	112,387	29,099	3,452,819
Total accumulated depreciation	3,451,565	130,709	31,137	3,551,137
Total Capital assets being depreciated, net	1,515,224	(130,709)	19,031	1,365,484
Business-type activities capital assets, net	\$1,588,244	\$162,156	\$19,031	\$1,731,369

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

Governmental activities	
General Administration	\$11,360
Public Safety	23,879
Culture and Recreation	567
Total depreciation expense - governmental activities	<u>\$35,806</u>
Business-type activities	
Utility	<u>\$130,710</u>
Total depreciation expense - Business-type activities	<u>\$130,710</u>

Construction commitments: The City had a Wastewater Improvement Project during the year. This project was completed at year's end and was operational in the 2016 year.

D. Interfund receivables, payables, and transfers

The City had no interfund receivables at September 30, 2015.

The City had the following transfers for the year ended September 30, 2015. The transfers were all non-recurring.

**PRIMARY GOVERNMENT**

<i>ACCOUNT</i>	<i>AMOUNT</i>	<i>REASON</i>
GENERAL FUND		
TRANSFER TO UTILITY FUND	\$58,154	GENERAL OPERATIONS
	<u>\$58,154</u>	

**FUNDS**

<i>ACCOUNT</i>	<i>AMOUNT</i>	<i>REASON</i>
GENERAL FUND		
TRANSFER TO NPD IMPOUND FUND	\$68,777	RESIDUAL TYPE TRANSFER
TRANSFER TO VETERANS MEMORIAL LIBRARY FUND	12,156	RESIDUAL TYPE TRANSFER
	<u>\$80,933</u>	

**RESIDUAL**

<i>ACCOUNT</i>	<i>AMOUNT</i>	<i>REASON</i>
GENERAL FUND		
TRANSFER TO MUNICIPAL DEVELOPMENT DISTRICT FUND	\$71,850	RESIDUAL TRANSFER
	<u>\$71,850</u>	

E. Leases

The City had no operating leases at September 30, 2015.

F. Long-term debt

Tax Notes

The government issues tax notes to provide funds for the acquisition and construction of major capital facilities. Tax Notes have been issued for governmental activities. The original amount of the tax notes issued in the 2008-2009 year was \$200,000.

Tax notes are direct obligations and pledge the full faith and credit of the government. Tax notes outstanding are as follows:

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
Governmental activities	6.0	\$45,000

The general fund is used to service the tax notes.

Annual debt service requirements to maturity for the Certificates of Obligation bonds and Revenue bonds are as follows:

Year Ending September 30,	<u>Governmental activities:</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$45,000	\$2,700
TOTALS	<u>\$45,000</u>	<u>\$2,700</u>

Notes Payable

Notes Payable to Security State Bank, Issued September 9, 2015; Maturity Date December 7, 2015; Interest Rate: 4.5%, Maturity Amount \$25,000, Amount Outstanding: \$25,000.

The Notes Payable are unsecured.

The annual requirements for the above general long-term debt outstanding at September 30, 2015 are as follows:

Year Ending September 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$25,000	\$275
TOTALS	<u>\$25,000</u>	<u>\$275</u>

### Capital Leases

The Capital Leases consists of one COPSUNC computer system for the police department Governmental Fund Capital Assets at \$37,443. The debt is serviced by the General Fund. The accumulated depreciation of the above equipment is \$7,489. The Capital Leases also consists of a truck and backhoe for the Utility Department at \$80,000. The debt is serviced by the Utility Fund. The accumulated depreciation of the above equipment is \$32,000. The following for the above debt is a schedule of the future minimum lease payments and the present value of net minimum lease payments at September 30, 2015.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2015, were as follows:

YEAR	Governmental Activities Amount	Business-type Activities Amount
2016	\$10,557	\$13,247
2017		13,247
2018		13,247
2019		13,247
2020		13,246
2021		13,246
Total Minimum Lease Payments	10,557	79,480
Less: Amount Representing Interest	509	10,978
Present Value of Net Minimum Lease Payments	\$10,048	\$68,502

## Changes in long-term liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>	<u>Due after one year</u>
<u>Governmental activities:</u>						
Notes Payable	0	25,000		25,000	25,000	0
Capital Lease	19,611		9,563	10,048	10,048	0
Net Pension Liability	20,149		4,257	15,892	0	15,892
Tax Notes	85,000		40,000	45,000	45,000	0
Compensated Absences	6,665	9,879	6,665	9,879	9,879	0
	<u>131,425</u>	<u>34,879</u>	<u>60,485</u>	<u>105,819</u>	<u>89,927</u>	<u>15,892</u>
<u>Business-type activities:</u>						
Compensated Absences	\$4,355	2,682	\$4,355	\$2,682	2,682	\$0
Net Pension Liability	11,172		2,360	8,812	0	8,812
Capital Lease	80,000		11,498	68,502	10,219	58,283
	<u>95,527</u>	<u>2,682</u>	<u>18,213</u>	<u>79,996</u>	<u>12,901</u>	<u>67,095</u>
Grand Total	<u>\$226,952</u>	<u>\$37,561</u>	<u>\$78,698</u>	<u>\$185,815</u>	<u>\$102,828</u>	<u>\$82,987</u>

The general fund and the utility fund are used to service the compensated absences. The estimated amount due in the 2016 year is \$12,561.

The government-wide statement of activities includes \$102,828 as "noncurrent liabilities, due within one year".

The total amount of interest expensed in 2014-2015 is \$4,983. There was no interest capitalized in capital assets.

## V. 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; injuries to employees; and natural disasters. Claim liabilities are estimated considering the effects of inflation, recent claim settlement trends (including frequency and amounts of payouts) and other economic and social factors (including the effects of specific, incremental claim adjustment expense, salvage and subrogation).

Changes in accrued liabilities for these claims follow:

	Year ended <u>09/30/14</u>	Year ended <u>09/30/15</u>
Unpaid claims, beginning of fiscal year	\$ -0-	\$ -0-
Incurred claims (including IBNRs)		
Claim payments	<u>-0-</u>	<u>-0-</u>
Unpaid claims, end of fiscal year	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>

### ***General Liability Insurance***

The City is insured for general, police officers and automobile liability. Expenditures for self-insured liabilities are accounted for in the General Fund, which will pay any liabilities incurred.

The City has joined together with other governments in the Texas Municipal League Intergovernmental Risk Pool (TML). The City pays an annual premium to TML for auto vehicle insurance coverage. The agreement with TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 to \$1,000,000 for each insurance event. The City anticipates no contingent losses.

TML has published its own financial report that can be obtained from the Texas Municipal League Intergovernmental Risk Pool, Austin, Texas.

The City carries commercial fidelity bonds for elected officials and for management.

### ***Property and Casualty Insurance***

Property, casualty, mobile equipment, boiler and machinery insurance is provided by TML.

### ***Workers' Compensation Insurance***

The City insures against workers' compensation claims through TML.

### ***Group Health and Life Insurance***

The City maintains a group health insurance plan for active employees and their eligible dependents. Costs are recorded in the fund from which the employees' compensation is paid.

### ***Unemployment Compensation Insurance***

The City self-insures for unemployment compensation claims through an agreement with the Texas Workforce Commission (TWC). Under the agreement, TWC administers all claims and is reimbursed by the City for claims incurred plus administrative charges.



B. Related party transaction

There were no related party transactions during the year.

C. Contingent liabilities

Amounts received or receivable from grant 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, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

***W Morgan v City of Natalia, Ruby Vera, and Beth Leonesio***: The former Police Interdiction Officer and Chief of Police filed suit against the City, former Mayor, and former City Administrator for nonpayment of accumulated compensatory time, overtime and retaliation. The City is seeking an out of court settlement. An unfavorable outcome may occur and potential loss could be as high as \$80,000.

D. Other Post Employment Benefits

The City had no Other Post Employment Benefits at September 30, 2015.

E. Subsequent events

On November 16, 2015 the City approved Option 1 relating to the sale of obligations designated as City of Natalia, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2015 as submitted by Community National Bank which provided for an average annual payment of \$29,728.00 at a 3.30% interest rate for a 15-year term, having an estimated interest cost of \$102,189.00.

On December 14, 2015 the City Administrator notified Council that the 2015-Series bond of \$350,000.00 is set for closing on December 15, 2015, \$10,000.00 of which will be deposited to Norton Rose Fulbright Law Firm, and \$10,000.00 will be deposited to Frost Bank Financial Advisory, and the remaining \$330,000.00 will be deposited into the City's account and held until next year for the purchase of water to avoid paying additional EAA permitting fees.

F. Prior Period Adjustments

The City has determined that certain transactions were recorded incorrectly in a prior year.

The City had a prior period adjustment where by both governmental and business-type activities and Net Pension Liability were decreased by \$6,797 and \$3,769, respectively. The restatement was a result of the City implementing GASB 68. These restatements had a corresponding effect on the beginning net assets.

	Net Assets, as Previously Reported	GASB 68 RESTATEMENT	Net Assets As Restated
<b>Governmental Activities:</b>			
Net Assets	\$478,439	(\$6,797)	\$471,642
<b>Total Governmental Activities</b>	<u>\$478,439</u>	<u>(\$6,797)</u>	<u>\$471,642</u>
	Net Assets, as Previously Reported	GASB 68 RESTATEMENT	Net Assets As Restated
<b>Business-Type Activities:</b>			
Net Assets	\$1,500,384	(\$3,769)	\$1,496,615
<b>Total Business-Type Activities</b>	<u>\$1,500,384</u>	<u>(\$3,769)</u>	<u>\$1,496,615</u>

## G. Defined Benefit Pension Plans

### A. Plan Description

The City of Natalia participates as one of 860 plans in the nontraditional, joint, contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com). All eligible employees of the city are required to participate in TMRS.

### B. Benefits Provided

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

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

#### Valuation Date:

Notes	Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.
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#### Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

#### Other Information:

Notes	There were no benefit changes during the year.
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*Employees covered by benefit terms.*

Actuarial Valuation and Measurement Date, December 31, 2013 2014

**Membership**

Number of:

- Inactive employees or beneficiaries currently receiving benefits	1	2
- Inactive employees entitled to but not yet receiving benefits	13	14
- Active employees	<u>9</u>	<u>12</u>
- Total	23	28

**C. Contributions**

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

Employees for the City of Natalia were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Natalia were 2.19% and 3.02% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015, were \$11,011, and were equal to the required contributions.

**D. Net Pension Liability**

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

*Actuarial assumptions:*

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

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

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

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

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

#### *Discount Rate*

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**CURRENT PERIOD**

**A. Total pension liability**

1. Service Cost	\$	23,246
2. Interest (on the Total Pension Liability)		14,327
3. Changes of benefit terms		0
4. Difference between expected and actual experience		(8,187)
5. Changes of assumptions		0
6. Benefit payments, including refunds of employee		(8,948)
7. Net change in total pension liability	\$	20,438
8. Total pension liability – beginning		197,525
9. Total pension liability - ending	\$	<u>217,963</u>

**B. Plan fiduciary net position**

1. Contributions – employer	\$	7,518
2. Contributions – employee		19,080
3. Net investment income		9,512
4. Benefit payments, including refunds of employee		(8,948)
5. Administrative Expense		(99)
6. Other		(8)
7. Net change in plan fiduciary net position	\$	27,055
8. Plan fiduciary net position - beginning		166,204
9. Plan fiduciary net position - ending	\$	<u>193,259</u>

C. Net pension liability (A.9 – B.9)	\$	<u>24,704</u>
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D. Plan fiduciary net position as a percentage of the total pension liability (B.9 / A.9)		88.67%
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E. Covered-employee payroll	\$	381,597
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F. Net pension liability as a percentage of covered employee payroll (C / E)		6.47%
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Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

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

<b>1% Decrease 6.00%</b>	<b>Current Single Rate Assumption 7.00%</b>	<b>1% Increase 8.00%</b>
\$53,424	\$24,704	\$1,160

#### *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.tnrs.com](http://www.tnrs.com).

#### E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the City recognized pension expense of \$94,211.

### SCHEDULE OF PENSION EXPENSE

1. Total Service Cost	\$ 23,246
2. Interest on the Total Pension Liability	14,327
3. Current Period Benefit Changes	0
4. Employee Contributions (Reduction of Expense)	(19,080)
5. Projected Earnings on Plan Investments (Reduction of Expense)	(1 1,634)
6. Administrative Expense	99
7. Other Changes in Fiduciary Net Position	8
8. Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	(2,516)
9. Recognition of Current Year Outflow (Inflow) of Resources-Assets	424
10. Amortization of Prior Year Outflows (Inflows) of Resources-Liabilities	0
11. Amortization of Prior Year Outflows (inflows) of Resources-Assets	0
12. Total Pension Expense	\$ 4,874

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

**SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE**

A.	Recognition Period (or amortization years)	Total (Inflow) or Outflow of Resources	2014 Recognized in current	Deferred (Inflow)/Outflow in future expense
<b><u>Due to Liabilities:</u></b>				
Difference in expected and actual experience [actuarial (gains) or losses]	3.2538	\$ (8,187)	\$ (2,516)	\$ (5,671)
Difference in assumption changes [actuarial (gains) or losses]	3.2538	\$ 0	\$ 0	\$ 0
			<u>\$ (2,516)</u>	<u>\$ (5,671)</u>
<b><u>Due to Assets:</u></b>				
Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses]	5.0000	\$ 2,122	\$ 424	\$ 1,698
			<u>\$ 424</u>	<u>\$ 1,698</u>
<b><u>Total:</u></b>				\$ (3,973)

(\$3,973) reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016.



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

Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future pension expense as follows:

		Net deferred outflows (inflows) of resources
2015	\$	-2,092
2016		-2,092
2017		-215
2018		426
2019		0
Thereafter		<u>0</u>
Total	\$	-3,973

REQUIRED SUPPLEMENTARY INFORMATION

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

	2014	2015	2016	2017
Total pension liability				
Service Cost	\$ 23,246	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Interest (on the Total Pension Liability)	14,327	xxx,xxx	xxx,xxx	xxx,xxx
Changes of benefit terms	0	xxx,xxx	xxx,xxx	xxx,xxx
Difference between expected and actual experience	(8,187)	xxx,xxx	xxx,xxx	xxx,xxx
Change of assumptions	0	xxx,xxx	xxx,xxx	xxx,xxx
Benefit payments, including refunds of employee contributions	(8,948)	xxx,xxx	xxx,xxx	xxx,xxx
Net Change in Total Pension Liability	20,438	xxx,xxx	xxx,xxx	xxx,xxx
Total Pension Liability - Beginning	197,535	xxx,xxx	xxx,xxx	xxx,xxx
Total Pension Liability - Ending (a)	\$ 217,9631	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Plan Fiduciary Net Position				
Contributions - Employer	\$ 7,518	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Contributions - Employee	19,080	xxx,xxx	xxx,xxx	xxx,xxx
Net Investment Income	9,512	xxx,xxx	xxx,xxx	xxx,xxx
Benefit payments, including refunds of employee contributions	(8,948)	xxx,xxx	xxx,xxx	xxx,xxx
Administrative Expense	(99)	xxx,xxx	xxx,xxx	xxx,xxx
Other	(8)	xxx,xxx	xxx,xxx	xxx,xxx
Net Change in Plan Fiduciary Net Position	27,055	xxx,xxx	xxx,xxx	xxx,xxx
Plan Fiduciary Net Position - Beginning	166,204	xxx,xxx	xxx,xxx	xxx,xxx
Plan Fiduciary Net Position - Ending (b)	\$ 193,259	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Net Pension Liability - Ending (a) - (b)	\$ 24,704	xxx,xxx	xxx,xxx	xxx,xxx
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	88.67%	x.xx%	x.xx%	x.xx%
Covered Employee Payroll	\$ 381,597	xxx,xxx	xxx,xxx	xxx,xxx
Net Pension Liability as a Percentage of Covered Employee Payroll	6.47%	x.xx%	x.xx%	x.xx%

**Notes to Schedule:**

*N/A*

Note to City: GASB 68 requires 10 fiscal years of data to be provided in this schedule. GRS will provide the current year results. The employer will be required to build this schedule over the next 10-year period.

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

	2014	2015	2016	2017
Actuarially Determined Contribution	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Contributions in relation to the actuarially determined contribution	\$ <u>xxx,xxx</u>	\$ <u>xxx,xxx</u>	\$ <u>xxx,xxx</u>	\$ <u>xxx,xxx</u>
Contribution deficiency (excess)	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Covered employee payroll	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Contributions as a percentage of covered employee payroll	xx.xx%	xx.xx%	xx.xx%	xx.xx%

## NOTES TO SCHEDULE OF CONTRIBUTIONS

### Valuation Date:

Notes

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

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

### Other Information:

Notes

There were no benefit changes during the year.