

CITY OF NATALIA, TEXAS
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
SEPTEMBER 30, 2017

CITY OF NATALIA, TEXAS
Annual Financial Report
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Employees Retirement System Information on pages 3–12, 61-62 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.

A handwritten signature in black ink that reads "Wayne R. Beyer". The signature is written in a cursive, flowing style.

BEYER & COMPANY
Certified Public Accountants
May 12, 2018

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, 2017.

Financial Highlights

- . The assets of the City of Natalia, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$2,779,093 (Net Position). Of this amount, \$266,886 or 10% (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 \$336,549. This increase is due mainly to an increase in capital grants and contributions of \$272,404 and careful budget management.
- . The City of Natalia, Texas' total debt increased by \$130,703 (25.42 percent) during the current fiscal year. The key factor was the tax bond issuance of \$200,000.

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 three 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 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 25-60 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 61-62 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 \$2,779,093 at the close of the most recent fiscal year.

A significant portion of the City of Natalia, Texas' Net Position (83 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*, \$266,886, 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	
	2017	2016	2017	2016	2017	2016
Current and other Assets	\$187,524	\$142,951	\$205,181	\$150,243	\$392,705	\$293,194
Restricted Assets:	213,791	145,411	44,556	43,581	258,347	188,992
Capital Assets:	663,693	426,022	2,229,109	2,141,977	2,892,802	2,567,999
Total Assets	1,065,008	714,384	2,478,846	2,335,801	3,543,854	3,050,185
Total Deferred Outflows of Resources	13,513	29,061	7,492	16,114	21,005	45,175
Long-term Liabilities	240,672	82,538	404,305	431,736	644,977	514,274
Other Liabilities (Payable from Restricted Assets)	0	0	67,830	70,295	67,830	70,295
Other Liabilities	27,535	26,535	42,709	41,732	70,244	68,267
Total Liabilities	268,207	109,073	514,844	543,763	783,051	652,836
Total Deferred Inflows of Resources	1,759	0	976	0	2,735	0
Invested in Capital Assets, Net of Related Debt	463,693	343,142	1,850,505	1,621,201	2,314,198	1,964,343
Restricted	197,989	142,999	0	0	197,989	142,999
Unrestricted	146,873	148,231	120,013	186,951	266,886	335,182
Total Net Position	\$808,555	\$634,372	\$1,970,518	\$1,808,152	\$2,779,073	\$2,442,524

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 \$54,990 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 proceeds.

The government's total Net Position increased by \$336,549. This increase is due mainly to an increase in capital grants and contributions of \$272,404 and careful budget management.

Governmental activities: Governmental activities increased the City of Natalia, Texas' Net Position by \$174,183, thereby accounting for 51.75 percent of the total increase in the Net Position of the City of Natalia, Texas. This increase is due mainly to an increase in capital grants and contributions of \$113,500 and careful budget management.

CITY OF NATALIA, TEXAS
CHANGE IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for Services	\$46,798	\$55,428	\$657,761	\$638,532	\$704,559	\$693,960
Operating Grants and Contributions	31,071	30,130			31,071	30,130
Capital Grants and Contributions	130,000	16,500	253,004	94,100	383,004	110,600
General Revenues:						
Maintenance and Operations Taxes	288,814	280,242			288,814	280,242
Sales Taxes	207,781	206,966			207,781	206,966
Franchise Taxes	38,593	44,578			38,593	44,578
Licenses and permits	0	0			0	0
Unrestricted Investment Earnings	552	371	205	178	757	549
Miscellaneous	7,850	75,479			7,850	75,479
Total Revenue	751,459	709,694	910,970	732,810	1,662,429	1,442,504
Expenses:						
General Administration	208,645	\$226,762			208,645	226,762
Public Safety	297,593	341,987			297,593	341,987
Public Transportation	6,041	11,944			6,041	11,944
Culture and Recreation	8,837	37,707			8,837	37,707
Interest and Fiscal Charges	22,915	2,730			22,915	2,730
Utility			781,849	747,047	781,849	747,047
Total Expenses	544,031	621,130	781,849	747,047	1,325,880	1,368,177
Increase in Net Position before transfers and special items	207,428	88,564	129,121	(14,237)	336,549	74,327
Transfers	(33,245)	26,873	33,245	(26,873)	0	0
Increase in Net Position	174,183	115,437	162,366	(41,110)	336,549	74,327
Net Position at 09/30/2016 - Restated	634,372	518,935	1,808,152	1,849,262	2,442,524	2,368,197
Net Position at 09/30/2017	\$808,555	\$634,372	\$1,970,518	\$1,808,152	\$2,779,073	\$2,442,524

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Government Activities:				
General Administration	\$208,645	\$1,942	\$0	\$0
Public Safety	297,593	44,856	31,071	130,000
Public Transportation	6,041			
Culture and Recreation	8,837			
Interest and Fiscal Charges	22,915			
Total Government Activities	\$544,031	\$46,798	\$31,071	\$130,000

Revenues by source - Governmental Activities

	<u>REVENUES</u>	<u>%</u>
Charges for Services	\$46,798	6%
Operating Grants and Contributions	31,071	4%
Capital Grants and Contributions	130,000	17%
Maintenance and Operations Taxes	288,814	39%
Sales taxes	207,781	28%
Franchise taxes	38,593	5%
Unrestricted investment earnings	552	0%
Miscellaneous	7,850	1%
	<u>\$751,459</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 \$162,366, accounting for 48.25 percent of the total increase in the government's Net Position. This increase is due mainly to an increase in capital grants and contributions of \$158,904 and careful budget management.

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary government			
Business-Type Activities:			
Utility	\$781,849	\$657,761	\$253,004
Total Business-Type Activities	<u>\$781,849</u>	<u>\$657,761</u>	<u>\$253,004</u>

Revenues by Source - Business-Type Activities

	Revenues	%
Charges for Services	\$657,761	72%
Capital Grants and Contributions	253,004	28%
Unrestricted Investment Earnings	205	0%
	<u>\$910,970</u>	<u>100%</u>

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 \$259,340, an increase of \$120,677 in comparison with the prior year. Approximately 18% of this total amount \$45,453 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 \$45,453, while total fund balance reached \$83,762. 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 10 percent of total general fund expenditures, while total fund balance represents 18 percent of that same amount.

The fund balance of the City of Natalia, Texas' general fund increased by \$65,291 during the current fiscal year. This increase is mainly attributable to a decrease in expenditures of \$168,720.

At the end of the current fiscal year the restricted fund balance of the NPD Impound fund was \$96, while total fund balance reached \$96. There were no income or expenditures during the year and thus there is no analysis.

At the end of the current fiscal year the restricted fund balance of the municipal development district fund was \$175,482, while total fund balance reached \$175,482. 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 57 percent of total municipal development district fund expenditures, while total fund balance represents 57 percent of that same amount.

The fund balance of the City of Natalia, Texas' municipal development district fund increased by \$55,386 during the current fiscal year. This increase is mainly attributable to sales tax receipts of \$66,179.

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 \$120,013. The total increase in Net Position for the Utility Fund was \$162,366. Key factors in this overall increase are examined above.

General Fund Budgetary Highlights

During the year there was a decrease in appropriations between the original and final amended budget for the general fund of \$3,386. The main decrease was in general administration of \$10,686.

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, 2017, amounts to \$2,892,801 (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 \$324,802 or 13 percent (a 56 percent increase for governmental activities and a 4 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following: The City had one Wastewater Improvement Project completed during the 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	
	2017	2016	2017	2016	2017	2016
Land	\$314,953	\$18,400	\$451,824	\$460,324	\$766,777	\$478,724
Construction in Progress	61,839	61,839	0	100,771	61,839	162,610
Building and improvements	263,724	283,386	43,187	44,340	306,911	327,726
Intangible	0	28,083	0	0	0	28,083
Machinery and equipment	23,177	34,314	19,472	42,416	42,649	76,730
Infrastructure	0	0	0	0	0	0
Distribution System	0	0	1,714,626	1,494,126	1,714,626	1,494,126
Total	\$663,693	\$426,022	\$2,229,109	\$2,141,977	\$2,892,801	\$2,567,999

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 Bonds	\$0	\$200,000	\$0	\$200,000	\$16,000	\$184,000
	\$0	\$200,000	\$0	\$200,000	\$16,000	\$184,000
<u>Business-type activities:</u>						
Revenue Bonds	\$350,000		\$19,000	\$331,000	\$20,000	\$311,000
	\$350,000	\$0	\$19,000	\$331,000	\$20,000	\$311,000
Total	\$350,000	\$200,000	\$19,000	\$531,000	\$36,000	\$495,000

The City of Natalia, Texas' total bonded debt increased by \$181,000 during the current fiscal year. This was a result of a bond issuance of \$200,000.

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 Eagle Ford Oil and Gas Shale have brought in new businesses which have increased the sales taxes significantly; however, the sales taxes have fallen recently because of a downturn in the oil and gas industry. Industry trends indicate the Oil and Gas industry will pick back up in the near 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, 2017

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Cash and Cash Equivalents	\$68,830	\$139,525	\$208,355
Receivables (Net of Allowance for Uncollectibles)	118,694	65,656	184,350
Restricted Assets:			
Cash and Cash Equivalents	213,791	44,556	258,347
Capital Assets Not Being Depreciated:			
Land	314,953	451,824	766,777
Construction in Progress	61,839		61,839
Total Capital Assets Being Depreciated, Net			
Building and Improvements	263,724	43,187	306,911
Intangible	0		0
Machinery and Equipment	23,177	19,472	42,649
Distribution System		1,714,626	1,714,626
Total Assets	<u>\$1,065,008</u>	<u>\$2,478,846</u>	<u>\$3,543,854</u>
DEFERRED OUTFLOWS OF RESOURCES			
GASB 68			
Deferred Outflow-Contributions After 12/31/2016	13,513	7,492	21,005
Total Deferred Outflows of Resources	<u>13,513</u>	<u>7,492</u>	<u>21,005</u>
LIABILITIES:			
Accounts Payable	\$20,906	\$36,852	\$57,758
Accrued Wages	6,231	4,991	11,222
Interest Payable	398	866	1,264
Deferred Revenues		0	0
Consumer Meter Deposit		67,830	67,830
Noncurrent Liabilities:			
Due Within One Year	22,168	37,711	59,879
Due in More Than One Year	218,504	366,594	585,098
Total Liabilities	<u>268,207</u>	<u>514,844</u>	<u>783,051</u>
DEFERRED INFLOWS OF RESOURCES			
GASB 68			
Difference in expected and actual experience	1,742	966	2,708
Difference in projected and actual earnings on pension plan inv.	17	10	27
Total Deferred Inflows of Resources	<u>1,759</u>	<u>976</u>	<u>2,735</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	463,693	1,850,505	2,314,198
Restricted			
Debt Service	15,088		15,088
Municipal Court Reserve	7,323		7,323
Municipal Development	175,482		175,482
Public Safety	96		96
Unrestricted	146,873	120,013	266,886
Total Net Position	<u>\$808,555</u>	<u>\$1,970,518</u>	<u>\$2,779,073</u>

The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in		Net (Expense) Revenue and Changes in Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Primary Government						
Government Activities:						
General Administration	\$208,645	\$1,942		\$0	(\$206,703)	(\$206,703)
Public Safety	297,593	44,856	31,071	130,000	(91,666)	(91,666)
Public Transportation	6,041				(6,041)	(6,041)
Culture and Recreation	8,837				(8,837)	(8,837)
Interest and Fiscal Charges	22,915				(22,915)	(22,915)
Total Government Activities	544,031	46,798	31,071	130,000	(336,162)	0
Business-Type Activities:						
Utility	781,849	657,761		253,004		128,916
Total Business-Type Activities	781,849	657,761	0	253,004	0	128,916
Total Primary Government	\$1,325,880	\$704,559	\$31,071	\$383,004	(336,162)	128,916
General Revenues						
Property Taxes, Levies for General Purposes					288,814	288,814
Sales Taxes					207,781	207,781
Franchise Taxes					38,593	38,593
Unrestricted Investment Earnings					552	205
Miscellaneous					7,850	7,850
Transfers					(33,245)	33,245
Total General Revenues and Transfers					510,345	33,450
Change in Net Position					174,183	162,366
Net Position - Beginning - Restated					634,372	1,808,152
Net Position - Ending					\$808,555	\$1,970,518

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF NATALIA, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	NPD Impound Fund	Municipal Development District Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$68,734	\$96	\$0	\$68,830
Receivables (Net of Allowance for Uncollectibles)	91,831			91,831
Restricted Assets:				
Cash and Cash Equivalents	38,309		175,482	213,791
Total Assets	<u>\$198,874</u>	<u>\$96</u>	<u>\$175,482</u>	<u>\$374,452</u>
LIABILITIES AND FUND BALANCES:				
Accounts Payable	\$20,906			\$20,906
Accrued Wages	6,231			6,231
Total Liabilities	<u>27,137</u>	<u>0</u>	<u>0</u>	<u>27,137</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Property Taxes	87,975			87,975
Total Deferred Inflows of Resources	<u>87,975</u>	<u>0</u>	<u>0</u>	<u>87,975</u>
Fund Balances:				
Restricted				
Debt Service	15,088			15,088
Municipal Court Reserve	7,323			7,323
Municipal Development			175,482	175,482
Public Safety		96		96
Committed				
Park	15,898			15,898
Unassigned	45,453			45,453
Total Fund Balance	<u>83,762</u>	<u>96</u>	<u>175,482</u>	<u>259,340</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$198,874</u>	<u>\$96</u>	<u>\$175,482</u>	<u>\$374,452</u>

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, 2017

Total Fund Balances - Governmental Funds Balance Sheet	\$259,340
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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.	663,693
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Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	87,975
--	--------

GASB 68

Deferred Outflow-Contributions After 12/31/2016	13,513
---	--------

Difference in expected and actual experience	(1,742)
--	---------

Difference in projected and actual earnings on pension plan inv.	(17)
--	------

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	26,863
---	--------

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(241,070)
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Net Position of Governmental Activities - Statement of Net Position	<u>\$808,555</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, 2017

	General Fund	NPD Impound Fund	Municipal Development District Fund	Total Governmental Funds
<i>REVENUES</i>				
Taxes				
Property	\$294,071	\$0	\$0	\$294,071
Sales	141,602		66,179	207,781
Franchise	38,593			38,593
Intergovernmental and Contributions	31,071		130,000	161,071
Charges for Services	2,771			2,771
Fines and Forfeitures	47,096			47,096
Interest	41		511	552
Miscellaneous	7,850			7,850
Total Revenues	563,095	0	196,690	759,785
<i>EXPENDITURES</i>				
Current:				
General Administration	183,552		8,498	192,050
Public Safety	243,807			243,807
Public Transportation	6,041			6,041
Culture and Recreation			3,500	3,500
Capital Projects -				
Capital Outlay and Other			296,553	296,553
Debt Service				
Principal Retirement	41,395			41,395
Interest Retirement	767			767
Total Expenditures	475,562	0	308,551	784,113
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	87,533	0	(111,861)	(24,328)
<i>OTHER FINANCING SOURCES (USES):</i>				
Other Financing Sources - Bonds	0		200,000	200,000
Other Financing Sources - Bonds - Issuance Cost			(21,750)	(21,750)
Operating Transfers In	11,003			11,003
Operating Transfers Out	(33,245)		(11,003)	(44,248)
Total Other Financing Sources (Uses)	(22,242)	0	167,247	145,005
Net Changes in Fund Balances	65,291	0	55,386	120,677
Fund Balances - Beginning	18,471	96	120,096	138,663
Fund Balances - Ending	\$83,762	\$96	\$175,482	\$259,340

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, 2017

Net Changes in Fund Balances - Total Governmental Funds \$120,677

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.	237,671
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(5,257)
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.	(3,069)
GASB 68	
Deferred Outflow of Resources-Contribution. This is the change in these amounts this year.	(517)
Difference in expected and actual experience	(8,557)
Difference in projected and actual earnings on pension plan inv.	(8,233)
Increase in loan principal are receipts in the funds but not revenue in the SOA.	(200,000)
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	41,395
(Increase) decrease in compensated absences payable from beginning of period to end of period.	274
(Increase) decrease in accrued interest payable from beginning of period to end of period.	(398)
(Increase) decrease in net pension liability from beginning of period to end of period.	197
Change in Net Position of Governmental Activities - Statement of Activities	<u>\$174,183</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, 2017

	Budgeted Amounts		Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$266,110	\$266,110	\$294,071	\$27,961
Sales	147,000	147,000	141,602	(5,398)
Franchise	46,915	46,915	38,593	(8,322)
Intergovernmental	31,070	31,070	31,071	1
Charges for Services	1,000	1,000	2,771	1,771
Fines and Forfeitures	65,000	47,000	47,096	96
Interest	50	50	41	(9)
Miscellaneous	1,100	21,996	7,850	(14,146)
Total Revenues	558,245	561,141	563,095	1,954
EXPENDITURES				
Current:				
General Administration				
General Administration	210,262	199,576	183,552	16,024
Public Safety				
Animal Control	450	450	206	244
Police	291,705	294,705	233,212	61,493
Municipal Court	8,500	12,800	10,389	2,411
Culture and Recreation				
Parks				0
Public Transportation				
Streets	15,500	15,500	6,041	9,459
Debt Service				
Principal Retirement				0
Interest Retirement				0
Total Expenditures	526,417	523,031	433,400	89,631
Excess (Deficiency) of Revenues Over (Under) Expenditures	31,828	38,110	129,695	91,585
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	6,281	0	0	0
Operating Transfers Out	(38,110)	(38,110)	(33,245)	4,865
Total Other Financing Sources (Uses)	(31,829)	(38,110)	(33,245)	4,865
Net Changes in Fund Balances - Budgetary Basis	(\$1)	\$0	96,450	\$96,450
Reconciliation from Cash Basis to Modified Accrual:				
Operating Transfers In			11,003	
Debt Service - Principal Retirement			(41,395)	
Debt Service - Debt Service - Interest Retirement			(767)	
Net Changes in Fund Balances-Modified Accrual Basis			65,291	
Fund Balances - Beginning			18,471	
Fund Balances - Ending			\$83,762	

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, 2017

	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$139,525	\$81,842	\$139,525
Accounts Receivables (Net of Allowance for Uncollectibles)	65,656	68,271	65,656
Prepaid Expenses		130	0
Total Current Assets	205,181	150,243	205,181
Noncurrent Assets			
Restricted Assets:			
Cash and Cash Equivalents - Water Meters	44,556	43,581	44,556
Total Restricted Assets	44,556	43,581	44,556
Capital Assets			
Land	451,824	460,324	451,824
Construction in Progress	0	100,771	0
Buildings and Improvements	57,668	57,668	57,668
Machinery and Equipment	180,059	204,830	180,059
Distribution System	5,373,835	5,050,348	5,373,835
Total Capital Assets	6,063,386	5,873,941	6,063,386
Less Accumulated Depreciation			
Total Capital Assets (Net of Accumulated Depreciation)	(3,834,277)	(3,731,964)	(3,834,277)
	2,229,109	2,141,977	2,229,109
Total Noncurrent Assets	2,229,109	2,141,977	2,229,109
DEFERRED OUTFLOWS OF RESOURCES			
GASB 68			
Deferred Outflow-Contributions After 12/31/2015		7,780	0
Deferred Outflow-Contributions After 12/31/2016	7,492		7,492
Difference in expected and actual experience		3,779	0
Difference in projected and actual earnings on investments		4,555	0
Total Deferred Outflow of Resources	7,492	16,114	7,492
TOTAL ASSETS	\$2,486,338	\$2,351,915	\$2,486,338

(continued)

(continued)

	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	\$36,852	\$21,270	\$36,852
Accrued Wages	4,991	5,018	4,991
Accrued Interest Payable	866	877	866
Compensated Absences	6,569	4,219	6,569
Deferred Revenues		14,567	0
Capital Leases - Current	11,142	10,671	11,142
Bonds Payable - Current	20,000	19,000	20,000
Total Current Liabilities (Payable from Current Assets)	80,420	75,622	80,420
Current Liabilities (Payable from Restricted Assets)			
Consumer Meter Deposits	67,830	70,295	67,830
Total Current Liabilities			
Payable from Restricted Assets	67,830	70,295	67,830
Noncurrent Liabilities			
Net Pension Liability	19,132	19,241	19,132
Capital Lease Payable	36,462	47,605	36,462
Bonds Payable	311,000	331,000	311,000
Total Noncurrent Liabilities	366,594	397,846	366,594
Total Liabilities	514,844	543,763	514,844
DEFERRED INFLOWS OF RESOURCES			
GASB 68			
Difference in expected and actual experience	966		966
Difference in projected and actual earnings on investments	10		10
Total Deferred Inflow of Resources	976	0	976
Invested in Capital Assets, Net of Related Debt	1,850,505	1,733,701	1,850,505
Unrestricted	120,013	74,451	120,013
Total Net Position	\$1,970,518	\$1,808,152	\$1,970,518

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, 2017

	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
OPERATING REVENUES:			
Charges for Services - Water	\$278,299	\$267,140	\$278,299
Charges for Services - Sewer	150,560	145,748	150,560
Charges for Services - Garbage	144,245	139,674	144,245
Charges for Services - General Fees	44,729	43,684	44,729
Charges for Services - Other	30,812	36,942	30,812
Miscellaneous	9,116	5,344	9,116
Total Operating Revenues	657,761	638,532	657,761
OPERATING EXPENSES:			
Personal Services	260,747	243,768	260,747
Supplies	36,508	35,748	36,508
Other Services and Charges	202,878	187,102	202,878
Sanitation Services	123,113	123,226	123,113
Depreciation	145,677	145,820	145,677
Total Operating Expenses	768,923	735,664	768,923
Operating Income (Loss)	(111,162)	(97,132)	(111,162)
NON-OPERATING REVENUES (EXPENSES):			
Interest Income	205	178	205
Interest and Fiscal Charges	(12,926)	(11,383)	(12,926)
Total Non-Operating Revenues (Expenses)	(12,721)	(11,205)	(12,721)
Income Before Contributions and Transfers	(123,883)	(108,337)	(123,883)
Intergovernmental	253,004	94,100	253,004
Transfers In (Out) - Net	33,245	(26,873)	33,245
Change in Net Position	162,366	(41,110)	162,366
Total Net Position - Beginning - Restated	1,808,152	1,849,262	1,808,152
Total Net Position - Ending	\$1,970,518	\$1,808,152	\$1,970,518

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, 2017

	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
Cash Flows from Operating Activities			
Receipts from Customers and Users	\$643,344	\$682,957	\$643,344
Payments to Suppliers	(337,200)	(406,841)	(337,200)
Payments to Employees	(258,533)	(230,714)	(258,533)
Net Cash Provided (Used) by Operating Activities	47,611	45,402	47,611
Cash Flows from Non-Capital and Related Financing Activities			
Transfers Out	33,245	(26,873)	33,245
Intergovernmental	253,004	94,100	253,004
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	286,249	67,227	286,249
Cash Flows from Capital and Related Financing Activities			
Principal Payment on Revenue Bonds, Notes and Capital Leases	(29,672)	(10,226)	(29,672)
Proceeds from Capital Debt	0	350,000	0
Interest and Fiscal Charges	(12,926)	(11,383)	(12,926)
Purchases of Capital Assets	(232,809)	(430,040)	(232,809)
Net Cash Provided (Used) by Capital and Related Financing Activities	(275,407)	(101,649)	(275,407)
Cash Flows from Investing Activities			
Interest Received	205	178	205
Net Cash Provided (Used) by Investment Activities	205	178	205
Net Increase (Decrease) in Cash Equivalents	58,658	11,158	58,658
Cash and Cash Equivalents at Beginning of Year	125,423	114,265	125,423
Cash and Cash Equivalents at End of Year	\$184,081	\$125,423	\$184,081
Restricted Cash	\$44,556	\$43,581	\$44,556
Unrestricted Cash	139,525	81,842	139,525
	\$184,081	\$125,423	\$184,081

(continued)

(continued)

	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)	(\$111,162)	(\$97,132)	(\$111,162)
Adjustments to Reconcile to Net Cash Flow			
Non-Cash Items Included in Net Income			
Depreciation	145,677	145,820	145,677
Changes in Current Items			
Decrease (Increase) in Accounts Receivable	2,615	31,129	2,615
Decrease (Increase) in Prepaid Expenses	130	0	130
GASB 68			
Decrease (Increase) Deferred Outflow of Resources-Contributions	288	722	288
Increase (Decrease) Difference in expected and actual exp.	4,745	(3,173)	4,745
Increase (Decrease) Difference in proj. and actual earnings	4,565	(6,578)	4,565
Increase (Decrease) in Accounts Payable	15,582	(52,613)	15,582
Increase (Decrease) in Accrued Wages	(27)	1,088	(27)
Increase (Decrease) in Accrued Interest Payable	(11)	877	(11)
Increase (Decrease) in Compensated Absences	2,350	1,537	2,350
Increase (Decrease) in Deferred Revenues	(14,567)	0	(14,567)
Increase (Decrease) in Consumer Meter Deposits	(2,465)	13,296	(2,465)
Increase (Decrease) in Net pension Liability	(109)	10,429	(109)
			0
Net Cash Provided (Used) by Operating Activities	<u>\$47,611</u>	<u>\$45,402</u>	<u>\$47,611</u>
Noncash Investing, Capital, and Financing Activities:			
Federal Grant Proceeds	\$253,004	\$94,100	\$253,004
Bond Proceeds		350,000	0
	<u>\$253,004</u>	<u>\$444,100</u>	<u>\$253,004</u>

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, 2017

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.

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, those transactions between governmental and business-type activities have not been eliminated. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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, sales taxes, and franchise 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 municipal development district fund is used to collect monies for Municipal Development.

D. Blended Component Units

The municipal development district fund is governed by a board appointed by the City Council. Although they are legally separate from the City, the municipal development district fund is reported as if they are a part of the primary government because their primary purpose is to provide services to the citizens of the City. It is reported as a special revenue fund of the City. Separate financial statements are not prepared for the blended component unit.

E. 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.

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility Fund (Water, Sewer, and Garbage) are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The government reports the following major proprietary funds:

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

F. 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.

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, 2017, trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding utility billings at September 30, 2017, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding utility billings at September 30, 2017, the trade accounts receivable allowance in excess of 90 days is equal to 25 percent of outstanding utility billings at September 30, 2017, and the trade accounts receivable allowance in excess of 120 days is equal to 50 percent of outstanding utility billings at September 30, 2017. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2017, and 10 percent of delinquent outstanding property taxes at September 30, 2017.

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, 2017.

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 no prepaid items at September 30, 2017.

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	\$15,088		\$15,088
Municipal Court Reserve	7,323		7,323
Municipal Development	175,482		175,482
Park	15,898		15,898
Meters		44,556	44,556
Total	\$213,791	\$44,556	\$258,347

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 one Wastewater Improvement Project completed during the year.

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

Asset	Years
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. They are amounts deferred under GASB 68.

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 only has one item that qualifies for reporting in this category. They are amounts deferred under GASB 68.

The City reports unearned revenue on its fund financial statements. Unearned revenues arise when potential revenue does not meet both the "measureable" and "available" criteria for recognition in the current period (fund financial statements). Unearned revenues also arise when resources are unearned by the City and received before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures (fund financial statements and government-wide financial statements). In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statement and revenue is recognized. Pursuant to GASB 65 we have included deferred ad valorem taxes as deferred inflows in the fund financial statements.

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, 2017, 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, 2017, fund balances are composed of the following:

Fund Balances:

Restricted	
Debt Service	\$15,088
Municipal Court Reserve	7,323
Municipal Development	175,482
Public Safety	96
Committed	
Park	15,898
Unassigned	45,453
Total Fund Balance	<u>\$259,340</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 \$241,070 difference are as follows:

Compensated Absences	\$6,168
Interest Payable	398
Bonds Payable	200,000
Net Pension Liability	34,504
	<u>\$241,070</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 \$87,975 difference are as follows:

Property Taxes Receivable	\$96,002
Allowance for Doubtful Accounts	<u>(8,027)</u>
Net	<u>\$87,975</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 \$663,693 difference are as follows:

Capital assets not being depreciated	\$376,792
Capital assets being depreciated	797,466
Depreciation expense	(510,565)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in Net Position of governmental activities	<u>\$663,693</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 \$26,863 difference are as follows:

Fines and Fees Receivable	\$160,171
Allowance for Doubtful Accounts	<u>(133,308)</u>
Net	<u>\$26,863</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 \$237,671 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	\$296,553
Capital Outlay - Additions - Being Depreciated	0
Capital Outlay - Adjustments and Deletions	(28,083)
Depreciation Expense	(30,799)

Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities	<u>\$237,671</u>
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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, 2017, 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, 2017.

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, 2017 is \$466,533 while the total pledged securities are \$985,968 and the FDIC insurance coverage is \$387,589. The book balance was \$466,702. As of September 30, 2017, 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	\$96,002		\$96,002
Charges for Services		66,202	66,202
Intergovernmental			0
Fines	160,171		160,171
Other	3,856	5,319	9,175
Gross receivables	260,029	71,521	331,550
Less: Allowance for uncollectibles	141,335	5,865	147,200
Net total receivables	<u>\$118,694</u>	<u>\$65,656</u>	<u>\$184,350</u>

C. Capital assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$18,400	\$296,553	\$0	\$314,953
Construction in Progress	\$61,839			\$61,839
Total capital assets not being depreciated	80,239	296,553	0	376,792
Capital assets being depreciated:				
Building and improvements	394,926	0	0	394,926
Intangible	37,443	0	37,443	0
Machinery and equipment	149,290	0	0	149,290
Infrastructure	253,250	0	0	253,250
Total capital assets being depreciated	834,909	0	37,443	797,466
Less accumulated depreciation for:				
Building and improvements	111,540	19,662	0	131,202
Intangible	9,360	0	9,360	0
Machinery and equipment	114,976	11,137	0	126,113
Infrastructure	253,250	0	0	253,250
Total accumulated depreciation	489,126	30,799	9,360	510,565
Total Capital assets being depreciated, net	345,783	(30,799)	28,083	286,901
Governmental activities capital assets, net	\$426,022	\$265,754	\$28,083	\$663,693

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$460,324	\$0	\$8,500	\$451,824
Construction in Progress	100,771	245,516	346,287	0
Total capital assets not being depreciated	561,095	245,516	354,787	451,824
Capital assets being depreciated:				
Building and improvements	57,668	0	0	57,668
Machinery and equipment	204,830	0	24,771	180,059
Distribution System	5,050,348	346,287	22,800	5,373,835
Total capital assets being depreciated	5,312,846	346,287	47,571	5,611,562
Less accumulated depreciation for:				
Building and improvements	13,328	1,153	0	14,481
Machinery and equipment	162,414	18,736	20,563	160,587
Distribution System	3,556,222	125,787	22,800	3,659,209
Total accumulated depreciation	3,731,964	145,676	43,363	3,834,277
Total Capital assets being depreciated, net	1,580,882	200,611	4,208	1,777,285
Business-type activities capital assets, net	\$2,141,977	\$446,127	\$358,995	\$2,229,109

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

Governmental activities		
General Administration		\$11,153
Public Safety		14,309
Culture and Recreation		5,337
Total depreciation expense - governmental activities		<u>\$30,799</u>
Business-type activities		
Utility		<u>\$145,676</u>
Total depreciation expense - Business-type activities		<u>\$145,676</u>

Construction commitments: The City had one Wastewater Improvement Project completed during the year.

D. Interfund receivables, payables, and transfers

The City had no interfund receivables at September 30, 2017.

The City had the following transfers for the year ended September 30, 2017. The transfers were all non-recurring.

PRIMARY GOVERNMENT

<i>ACCOUNT</i>	<i>AMOUNT</i>	<i>REASON</i>
<u>GENERAL FUND</u>		
TRANSFER TO UILITY FUND	\$33,245	GENERAL OPERATIONS
	<u>\$33,245</u>	

FUNDS

<i>ACCOUNT</i>	<i>AMOUNT</i>	<i>REASON</i>
<u>MUNICIPAL DEV. FUND</u>		
TRANSFER TO GENERAL FUND	\$11,003	GENERAL OPERATIONS
	<u>\$11,003</u>	

E. Leases

Operating Leases

The government leases equipment under non-cancelable operating leases. Total costs for such leases were \$848 for the year ended September 30, 2017. The future minimum lease payments for these leases are as follows:

Year Ending Sep. 30,	Amount
2018	\$ 1,273
2019	\$ 1,273
2020	\$ 1,273
2021	\$ 1,273
2022	\$ 424
Total	<u>\$ 5,516</u>

Rent expenditures were \$144 for the year ended September 30, 2017. Sublease rental income was \$0 for the year ended September 30, 2017.

F. Long-term debt

Tax Notes

The government issues combination tax and revenue certificates of obligation for making permanent public improvements and for other public purposes.

Tax bonds have been issued for governmental activities. The original amount issued was \$200,000; the current balance is \$200,000.

Bonds have also been issued for business-type activities. The original amount issued was \$350,000; the current balance is \$331,000.

The certificates of obligation are secured by the full faith and credit of the government. Bonds outstanding are as follows:

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
Governmental activities	3.11%	\$200,000
Business-type activities	1.75-3.75%	\$331,000

The general fund is used to service the tax notes.

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

Year Ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$16,000	\$7,837	\$20,000	\$10,004
2019	18,000	5,443	20,000	9,609
2020	19,000	4,867	20,000	9,179
2021	19,000	4,276	21,000	8,697
2022	20,000	3,670	22,000	8,148
2023-2027	108,000	8,615	118,000	30,365
2028-2032	0	0	110,000	8,342
TOTALS	\$200,000	\$34,708	\$331,000	\$84,344

Capital Leases

The Capital Leases 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 \$64,000. 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, 2017. The security for the capital leases is the equipment financed.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2017, were as follows:

YEAR	Business-Type Activities Amount
2018	13,247
2019	13,247
2020	13,246
2021	13,246
Total Minimum Lease Payments	52,986
Less: Amount Representing Interest	5,381
Present Value of Net Minimum Lease Payments	\$47,605

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	41,395		41,395	0		0
Tax Bond Payable	0	200,000	0	200,000	16,000	184,000
Net Pension Liability	34,701		197	34,504	0	34,504
Compensated Absences	6,442	6,168	6,442	6,168	6,168	0
	<u>82,538</u>	<u>206,168</u>	<u>48,034</u>	<u>240,672</u>	<u>22,168</u>	<u>218,504</u>
<u>Business-type activities:</u>						
Compensated Absences	4,219	6,569	4,219	6,569	6,569	0
Revenue Bonds	350,000		19,000	331,000	20,000	311,000
Net Pension Liability	19,241		109	19,132	0	19,132
Capital Lease	58,276		10,672	47,604	11,142	36,462
	<u>431,736</u>	<u>6,569</u>	<u>34,000</u>	<u>404,305</u>	<u>37,711</u>	<u>366,594</u>
Grand Total	<u>\$514,274</u>	<u>\$212,737</u>	<u>\$82,034</u>	<u>\$644,977</u>	<u>\$59,879</u>	<u>\$585,098</u>

The general fund and the utility fund are used to service the compensated absences. The estimated amount due in the 2018 year is \$12,737.

The government-wide statement of activities includes \$59,879 as "noncurrent liabilities, due within one year".

The total amount of interest expensed in 2016-2017 is \$22,915. 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 09/30/16	Year ended 09/30/17
Unpaid claims, beginning of fiscal year	\$ -0-	\$ -0-
Incurred claims (including IBNRs)		
Claim payments	-0-	-0-
Unpaid claims, end of fiscal year	<u>\$ -0-</u>	<u>\$ -0-</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

Darin Frazier, Alderman, Sold Palm Courts Property to Municipal Development District in May 2017. The contract sales price was \$295,000.

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. The City was not a defendant at September 30, 2017.

D. Other Post Employment Benefits

The City had no Other Post Employment Benefits at September 30, 2017.

E. Subsequent events

The City was awarded two grants: A Texas Department of Agriculture grant for \$275,000 and a Downtown Revitalization grant for \$166,666.

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 were increased by \$41,485 and \$112,500, respectively. The restatement was a result of omitted capital assets. These restatements had a corresponding effect on the beginning net assets.

	Net Assets, as Previously Reported	CAPITAL ASSET RESTATEMENT	Net Assets As Restated
Governmental Activities:			
Net Assets	\$592,887	\$41,485	\$634,372
Total Governmental Activities	<u>\$592,887</u>	<u>\$41,485</u>	<u>\$634,372</u>

	Net Assets, as Previously Reported	CAPITAL ASSET RESTATEMENT	Net Assets As Restated
Business-Type Activities:			
Net Assets	\$1,695,652	\$112,500	\$1,808,152
Total Business-Type Activities	<u>\$1,695,652</u>	<u>\$112,500</u>	<u>\$1,808,152</u>

G. Employees Retirement System Information

EXECUTIVE SUMMARY
as of **December 31, 2016**

Actuarial Valuation and Measurement Date, December 31,	2015	2016
Membership		
Number of		
- Inactive employees or beneficiaries currently receiving benefits	2	2
- Inactive employees entitled to but not yet receiving benefits	14	14
- Active employees	<u>10</u>	<u>11</u>
-Total	26	27
 Covered Payroll	 \$ 381,929	 \$ 394,493
Net Pension Liability		
Total Pension Liability	\$ 261,317	\$ 291,658
 Plan Fiduciary Net Position	 <u>207,375</u>	 <u>238,022</u>
Net Pension Liability	\$ 53,942	\$ 53,636
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	 79.36%	 81.61%
 Net Pension Liability as a Percentage of Covered Payroll	 14.12%	 13.60%
Development of the Single Discount Rate		
Single Discount Rate	6.75%	6.75%
Long-Term Expected Rate of Return	6.75%	6.75%
Long-Term Municipal Bond Rate*	3.57%	3.78%
 Last year ending December 31 in the 100 year projection period for which projected benefit payments are fully funded	 N/A	 N/A

*Based on the Bond Buyer 20 Bond Index of general obligation bonds as of December 31, 2015 and December 29, 2016 respectively as these are the weekly rate closest to but not later than the Measurement Dates.

SCHEDULE OF PENSION EXPENSE

1. Total Service Cost	\$ 28,009
2. Interest on the Total Pension Liability	18,176
3. Changes in Current Period Benefits Including Substantively Automatic Status	0
4. Employee Contributions (Reduction of Expense)	(19,725)
5. Projected Earnings on Plan Investments (Reduction of Expense)	(13,998)
6. Administrative Expense	158
7. Other Changes in Fiduciary Net Position	9
8. Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	(1,046)
9. Recognition of Current Year Outflow (Inflow) of Resources-Assets	(7)
10. Amortization of Prior Year Outflows (Inflows) of Resources-Liabilities	1,981
11. Amortization of Prior Year Outflows (Inflows) of Resources-Assets	<u>3,073</u>
12. Total Pension Expense (Income)	\$ 16,630

SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE

A.	Recognition Period (or amortization years)	Total (Inflow) or Outflow of Resources	2016 Recognized in current pension expense	Deferred (Inflow)/Outflow in future expense
Due to Liabilities:				
Difference in expected and actual experience [actuarial (gains) or losses]	3.5900	\$ (3,754)	\$ (1,046)	\$ (2,708)
Change in assumptions [actuarial (gains) or losses]	3.5900	\$ 0	\$ 0	\$ 0
			<u>\$ (1,046)</u>	<u>\$ (2,708)</u>
Due to Assets:				
Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses]	5.0000	\$ (34)	\$ (7)	\$ (27)
			<u>\$ (7)</u>	<u>\$ (27)</u>
Total:				<u>\$ (2,735)</u>

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

	Net deferred outflows (inflows) of <u>resources</u>
2017	\$ 5,878
2018	5,799
2019	2,024
2020	(6)
2021	0
Thereafter	0
Total	\$ 13,695

Note to City:

GASB 68 requires 10 fiscal years of data to be provided in the Schedule of Contributions; the City will build this report over the next 10-year period. **The data in this schedule is based on the City's fiscal year-end,** not the valuation/measurement date as provided in other schedules of this report.

The Actuarially Determined Contribution (ADC) dollar amount can be calculated by multiplying the City's Full Retirement Rate (**excludes portion of rate for Supplemental Death Benefits Fund**) by the applicable payroll amount (for payroll, cities can use "gross earnings" as noted on line 1 of their TMRS-3 "Summary of Monthly Payroll Report"). The applicable months for the City's fiscal year are summed to determine the total ADC. Actual contribution amounts (employer-portion) remitted to TMRS will equal the "contributions in relation to ADC", with the deficiency/(excess) result then calculated. Covered payroll is the sum of the "gross earnings" for the applicable months of the TMRS-3 reports.

For additional detailed information, please reference the TMRS "GASB-Employer Reporting Guide."

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$91,909	\$53,636	\$22,075

SUMMARY OF ACTUARIAL ASSUMPTIONS

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. These assumptions apply to both the Pension Trust and the Supplemental Death Benefits Fund as applicable.

I. Economic Assumptions

A. General Inflation- General Inflation is assumed to be 2.50% per year.

B. Discount/Crediting Rates

1. System-wide Investment Return Assumption: 6.75% per year, compounded annually, composed of an assumed 2.50% inflation rate and a 4.25% net real rate of return. This rate represents the assumed return, net of all investment and administrative expenses. This is the discount rate used to value the liabilities of the individual employers.
2. For the Supplemental Death Benefits Fund, the rate is 4.25% per year, compounded annually, and derived as a blend of 5.00% for the portion of the benefits financed by advance funding contributions and a short-term interest rate for the portion of the benefits financed by current contributions.
3. Assumed discount/crediting rate for Supplemental Disability Benefits Fund and individual employee accounts: an annual rate of 5.00% for (1) accumulating prior service credit and updated service credit after the valuation date, (2) accumulating the employee current service balances, (3) determining the amount of the monthly benefit at future dates of retirement or disability, and (4) calculating the actuarial liability of the system-wide Supplemental Disability Benefits Fund.

C. Overall Payroll Growth - 3.00% per year, which is used to calculate the contribution rates for the retirement plan of each participating city as a level percentage of payroll. This represents the expected increase in total payroll. This increase rate is solely due to the effect of wage inflation on salaries, with no allowance for future membership growth. However, for cities with a decrease in the number of contributing members from 2005 to 2014, the payroll growth is decreased by half the annual percentage decrease in the count capped at a 1.0% decrease per year and rounded down to the nearest 0.1%.

D. Individual Salary Increases -

Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by the following graduated service-based scale.

Years of Service	Rate (%)
1	10.50%
2	7.50%
3	7.00%
4	6.50%
5	6.00%
6	5.50%
7	5.25%
8-10	4.75%
11	4.50%
12-13	4.25%
14-16	4.00%
17-24	3.75%
25 +	3.50%

E. Annuity Increase - The Consumer Price Index (CPI) is assumed to be 2.50% per year prospectively. For the City of Natalia annual annuity increases of 0.00% are assumed when calculating the TPL.

II. Demographic Assumptions

A. Termination Rates

1. For the first 10 years of service, the base table rates vary by gender, entry age, and length of service. For City of Natalia the base table is then multiplied by a factor of 85.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire - 63%, 2) Police - 88%, or 3) Other - 108%. A sample of the base rates follows:

Males

Age	Service									
	0	1	2	3	4	5	6	7	8	9
20	0.2920	0.2623	0.2186	0.1932	0.1850	0.1673	0.1529	0.1243	0.1022	0.0816
25	0.2653	0.2269	0.1812	0.1554	0.1429	0.1267	0.1148	0.1006	0.0926	0.0757
30	0.2451	0.2052	0.1610	0.1322	0.1079	0.0998	0.0896	0.0774	0.0744	0.0621
35	0.2505	0.2070	0.1577	0.1265	0.1050	0.0994	0.0848	0.0719	0.0621	0.0567
40	0.2467	0.2060	0.1561	0.1213	0.1046	0.0943	0.0805	0.0710	0.0601	0.0577
45	0.2268	0.1934	0.1556	0.1220	0.1053	0.0926	0.0813	0.0711	0.0605	0.0575
50	0.2078	0.1731	0.1412	0.1149	0.1016	0.0887	0.0807	0.0716	0.0604	0.0578
55	0.2003	0.1668	0.1265	0.1074	0.0861	0.0864	0.0771	0.0682	0.0609	0.0560
60	0.1999	0.1542	0.1231	0.1060	0.0790	0.0868	0.0753	0.0683	0.0571	0.0549
65	0.2000	0.1463	0.1238	0.1063	0.0803	0.0867	0.0757	0.0700	0.0547	0.0551
70	0.2000	0.1477	0.1237	0.1063	0.0802	0.0867	0.0756	0.0697	0.0551	0.0551

Females

Age	Service									
	0	1	2	3	4	5	6	7	8	9
20	0.3030	0.2790	0.2221	0.2098	0.1997	0.2021	0.1536	0.1539	0.1564	0.1574
25	0.2782	0.2409	0.2067	0.1962	0.1710	0.1663	0.1369	0.1352	0.1186	0.1125
30	0.2574	0.2188	0.1949	0.1762	0.1347	0.1348	0.1276	0.1126	0.0973	0.0804
35	0.2424	0.2118	0.1805	0.1438	0.1273	0.1238	0.1112	0.1085	0.1000	0.0769
40	0.2244	0.1993	0.1614	0.1342	0.1295	0.1097	0.1023	0.0924	0.0834	0.0733
45	0.2191	0.1853	0.1427	0.1337	0.1054	0.1017	0.0894	0.0784	0.0705	0.0725
50	0.2201	0.1793	0.1347	0.1229	0.0886	0.0881	0.0823	0.0723	0.0675	0.0617
55	0.2200	0.1738	0.1350	0.1199	0.0834	0.0806	0.0713	0.0705	0.0685	0.0551
60	0.2200	0.1523	0.1350	0.1172	0.0798	0.0843	0.0646	0.0639	0.0429	0.0379
65	0.2200	0.1431	0.1350	0.1150	0.0800	0.0857	0.0667	0.0593	0.0276	0.0280
70	0.2200	0.1447	0.1350	0.1154	0.0800	0.0854	0.0664	0.0601	0.0303	0.0298

2. After 10 years of service, base termination rates vary by gender and by the number of years remaining until first retirement eligibility. For City of Natalia the base table is then multiplied by a factor of 85.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire - 52%, 2) Police - 79%, or 3) Other - 115%. A sample of the base rates follows:

Years from Retirement	Male	Female
1	1.72%	2.20%
2	2.29%	2.97%
3	2.71%	3.54%
4	3.06%	4.01%
5	3.35%	4.41%
6	3.61%	4.77%
7	3.85%	5.10%
8	4.07%	5.40%
9	4.28%	5.68%
10	4.47%	5.94%
11	4.65%	6.19%
12	4.82%	6.43%
13	4.98%	6.66%
14	5.14%	6.87%
15	5.29%	7.08%

Termination rates end at first eligibility for retirement

- B. Forfeiture Rates (Withdrawal of Member Deposits from TMRS) for vested members vary by age and employer match, and they are expressed as a percentage of the termination rates shown in (A). The withdrawal rates for cities with a 2-to-1 match are shown below. 4% is added to the rates for 1-1½-to-1 cities, and 8% is added for 1-to-1 cities.

Age	Percent of Terminating Employees Choosing to Take a Refund
25	41.2%
30	41.2%
35	41.2%
40	38.0%
45	32.6%
50	27.1%
55	21.7%

Forfeiture rates end at first eligibility for retirement.

C. Service Retirees and Beneficiary Mortality Rates

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 97.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

D. Disabled Annuitant Mortality Rates

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. In addition, a 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

E. Pre-Retirement Mortality

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 54.5% and female rates multiplied by 51.5%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

F. Annuity Purchase Rates

For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027 the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

G. Disability Rates

Age	Males & Females
20	0.000004
25	0.000025
30	0.000099
35	0.000259
40	0.000494
45	0.000804
50	0.001188
55	0.001647
60	0.002180
65	0.002787

H. Service Retirement Rates, applied to both Active and Inactive Members

The base table rates vary by gender, entry age group, and age. For members under age 62, these base rates are then multiplied by 2 factors based on 1) employee contribution rate and employer match and 2) if the city has a recurring COLA.

Age	Males Entry Age Groups			Females Entry Age Groups		
	Ages 32 & Under	Ages 33-47	Ages 48 & Over	Ages 32 & Under	Ages 33-47	Ages 48 & Over
40-44	0.06	-	-	0.06	-	-
45-49	0.06	-	-	0.06	-	-
50-52	0.08	-	-	0.08	-	-
53	0.08	0.10	-	0.08	0.10	-
54	0.08	0.10	-	0.11	0.10	-
55-59	0.14	0.10	-	0.11	0.10	-
60	0.20	0.15	0.10	0.14	0.15	0.10
61	0.25	0.30	0.20	0.28	0.26	0.20
62	0.32	0.25	0.12	0.28	0.17	0.12
63	0.32	0.23	0.12	0.28	0.17	0.12
64	0.32	0.35	0.20	0.28	0.22	0.20
65	0.32	0.32	0.20	0.28	0.27	0.20
66-69	0.22	0.22	0.17	0.22	0.22	0.17
70-74	0.20	0.22	0.25	0.22	0.22	0.25
75 and over	1.00	1.00	1.00	1.00	1.00	1.00

Note: For cities without a 20-year/any age retirement provision, the rates for entry ages 32 and under are loaded by 20% for ages below 60.

Plan Design Factors Applied to Base Retirement Rates

Employer Match	Employee Contribution Rate		
	5%	6%	7%
1-1	0.75	0.80	0.84
1.5-1	0.81	0.86	0.92
2-1	0.86	0.93	1.00

Recurring COLA: 100%

No Recurring COLA: 90%

III. Methods and Assumptions

- A. Valuation of Assets - The actuarial value of assets is based on the market value of assets with a ten-year phase-in of actual investment return in excess of (less than) expected investment income. Offsetting unrecognized gains and losses are immediately recognized, with the shortest remaining bases recognized first and the net remaining bases continue to be recognized on their original timeframe. The actuarial value of assets is further adjusted by 33% of any difference between the initial value and a 15% corridor around the market value of assets, if necessary. For the purpose of determining the UAAL and annual required contribution associated with the Supplemental Death Trust, assets are valued at the Fund Value.
- B. Actuarial Cost Method: The actuarial cost method being used is known as the Entry Age Normal Actuarial Cost Method. The Entry Age Normal Actuarial Cost Method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the current city. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated. The unfunded actuarial accrued liability is paid off in accordance with a specified amortization procedure outlined in C below.

- C. Amortization Policy: For "underfunded" cities with twenty or more employees, the amortization as of the valuation date is a level percentage of payroll over a closed period using the process of "laddering". Bases that existed prior to this valuation continue to be amortized on their original schedule. Beginning January 1, 2016, all new experience losses are amortized over individual periods of not more than 25 years. Previously, some cities amortized their losses over a 30 year period. New gains (including lump sum contributions) are offset against and amortized over the same period as the current largest outstanding loss base for the specific City which in turn decreases contribution rate volatility.

Once a City reaches an "overfunded" status, all prior non-ad hoc bases are erased and the surplus for overfunded cities is amortized over a 25 year open period.

Ad hoc benefit enhancements are amortized over individual periods using a level dollar policy. The period will be based on the minimum of 15 years or the current life expectancy of the covered group.

For the December 31, 2013 actuarial valuation, there was a one-time change in the amortization policy for underfunded cities implemented in conjunction with the changes to the assumptions and cost method to minimize rate volatility associated with these changes. An initial ARC was developed using the methodology described above. For cities with a decrease in the rate compared to the rate calculated prior to changes, the amortization period for all non-ad hoc bases was shortened enough to keep the rates stable (if possible). Cities with an increase of more than 0.50% were allowed to extend the amortization periods for non-ad hoc bases up to 30 years to keep the full contribution rate from increasing. For cities with an increase of 0.50% or less, the amortization periods for all non-ad hoc bases could be extended to 25 years to keep the rate from increasing. The amortization period calculated in the prior steps was then rounded up to the nearest integer to calculate the final full contribution rate.

For the purpose of determining the annual required contribution associated with the Supplemental Death Trust, the amortization of the UAAL is done using a 25 year open period.

- D. Small City Methodology - For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, 100% for employers with 11 to 15 members, and 115% for employers with less than 100 members.

There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%).

For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than the 20 member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use $(25 - (20 - 8)) = 13$ year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be $25 - (20 - 1) = 6$ years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years.

- E. Supplemental Death Benefit - The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees. Due to the significant reserve in the Supplemental Death Trust, the SDB rate for retiree coverage is currently only one-third of the total term cost.

IV. Other Assumptions

1. Valuation payroll (used for determining the amortization contribution rate): An exponential average of the actual salaries paid during the prior fiscal years, with 33% weight given to the most recent year and 67% weight given to the expected payroll for the previous fiscal year, moved forward with one year's payroll growth rate and adjusted for changes in population.
2. Individual salaries used to project benefits: For members with more than three years of service, actual salaries from the past three fiscal years are used to determine the USC final average salary as of the valuation date. For future salaries, this three-year average is projected forward with two years of salary scale to create the salary for the year following the valuation. This value is then projected with normal salary scales.
3. Timing of benefit payments: Benefit payments are assumed to be made in the middle of the month. Although TMRS benefits are paid at the end of the month, eligibility for that payment is determined at the beginning of the month. A middle of month payment approximates the impact of the combination of eligibility determination and actual payment timing.
4. Percent married: 100% of the employees are assumed to be married.
5. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses.

6. Optional Forms: Healthy members are assumed to choose a life only benefit when they retire. Disabled members are assumed to select a 50% Joint and Survivor option when they retire.
7. Percent electing annuity on death (when eligible): For vested members not eligible for retirement, 75% of the spouses of male members and 70% of the spouses of female members are assumed to commence an immediate benefit in lieu of a deferred annuity or a refund. Those not electing an immediate benefit are assumed to take a refund. All of the spouses of married participants who die after becoming eligible for a retirement benefit are assumed to elect an annuity that commences immediately.
8. Partial Lump Sum Utilization: It is assumed that each member at retirement will withdraw 40% of their eligible account balance.
9. Inactive Population: All non-vested members of a city are assumed to take an immediate refund if they are not contributing members in another city. Vested members not contributing in another city are assumed to take a deferred retirement benefit, except for those who have terminated in the past 12 months for whom one year of forfeiture probability is assumed. The forfeiture rates for inactive members of a city who are contributing members in another city are equal to the probability of termination multiplied by the forfeiture rates shown in II(A) and II(B) respectively. These rates are applied each year until retirement eligibility. Once a member is retirement eligible, they are assumed to commence benefits based on the service retirement rates shown in II(H).
10. There will be no recoveries once disabled.
11. No surviving spouse will remarry and there will be no children's benefit.
12. Decrement timing: Decrements of all types are assumed to occur mid-year.
13. Eligibility testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
14. Decrement relativity: Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
15. Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.
16. Benefit Service: All members are assumed to accrue 1 year of eligibility service each year.

17. The decrement rates for service related decrements are based on total TMRS eligibility service.

V. *Participant Data*

Participant data was supplied in electronic text files. There were separate files for (i) active and inactive members, and (ii) members and beneficiaries receiving benefits.

The data for active members included birthdate, gender, service with the current city and total vesting service, salary, employee contribution account balances, as well as the data used in the next calculation of the Updated Service Credit (USC). For retired members and beneficiaries, the data included date of birth, gender, spouse's date of birth (where applicable), amount of monthly benefit, date of retirement, form of payment code, and aggregate increase in the CPI that will be used in the next calculation of the cost of living adjustment.

To the extent possible we have made use of all available data fields in the calculation of the liabilities stated in this report. Actual CPI is used to model the wear-away effect or "catch-up" when a city changes its COLA provisions. Adjustments are made for members who have service both in a city with "20 and out" retirement eligibility and one that hasn't adopted it to calculate the earliest possible retirement date.

Salary supplied for the current year was based on the annualized earnings for the year preceding the valuation date.

Assumptions were made to correct for missing, bad, or inconsistent data. These had no material impact on the results presented.

Texas Municipal Retirement System

Amortization Schedule
Deferred (Inflows)/Outflows of Resources

	Remaining Recognition period (or amortization	Total Remaining (Inflow) or Outflow of	Measurement Year													
			Resources	2016	2017	2018	2019	2020	2021	Thereafter						
<div>Due to: Liabilities:</div>																
difference in experiences (inflows) / outflows																
2016	3.5900	(3,754)	(1,046)	(1,046)	(1,046)	(616)	0	0	0	0						
2015	2.8400	7,064	2,487	2,487	2,090	0	0	0	0	0						
2014	1.2538	(3,155)	(2,516)	(639)	0	0	0	0	0	0						
		Total	\$	(1,075)	\$	802	\$	1,044	\$	(616)	\$	0	\$	0	\$	0
change in assumptions (inflows) /outflows																
2015	2.8400	5,707	2,010	2,010	1,687	0	0	0	0	0						
		Total	\$	2,010	\$	2,010	\$	1,687	\$	0	\$	0	\$	0	\$	0
<div>Due to Assets:</div>																
excess investment returns (inflows) / outflows																
2016	5.0000	(34)	(7)	(7)	(7)	(7)	(6)	0	0	0						
2015	4.0000	10,594	2,649	2,649	2,649	2,647	0	0	0	0						
2014	3.0000	1,274	424	424	426	0	0	0	0	0						
		Total	\$	3,066	\$	3,066	\$	3,068	\$	2,640	\$	(6)	\$	0	\$	0

REQUIRED SUPPLEMENTARY INFORMATION

A. Total pension liability

	2016	2015
1. Service Cost	\$28,009	\$26,124
2. Interest (on the Total Pension Liability)	18,176	15,624
3. Changes of benefit terms	0	0
4. Difference between expected and actual experience	(3,754)	9,551
5. Changes of assumptions	0	7,717
6. Benefit payments, including refunds of employee contributions	(12,090)	(15,662)
7. Net change in total pension liability	30,341	43,354
8. Total pension liability -- beginning	261,317	217,963
9. Total pension liability - ending	291,658	261,317

B. Plan fiduciary net position

1. Contributions - employer	9,147	10,578
2. Contributions - employee	19,725	19,096
3. Net investment income	14,032	285
4. Benefit payments, including refunds of employee contributions	(12,090)	(15,662)
5. Administrative Expense	(158)	(174)
6. Other	(9)	(9)
7. Net change in plan fiduciary net position	30,647	14,114
8. Plan fiduciary net position - beginning	207,375	193,259
9. Plan fiduciary net position - ending*	238,022	207,373

C. Net pension liability (A.9 - B.9)

\$53,636	\$53,944
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D. Plan fiduciary net position as a percentage
of the total pension liability (B.9 / A.9)

81.61%	79.36%
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E. Covered-employee payroll (B.9 / A.9)

\$394,493	\$381,929
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F. Net pension liability as a percentage
of covered employee payroll (C/E)

13.60%	14.12%
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The schedule above reflects the changes in the net pension liability for the current year. GASB 68 requires 10 fiscal years of data to be provided in this schedule. The employer/city will be required to build this schedule over the 10-year period; as such, the employer should retain the annual GASB packages to utilize in building this schedule.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
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 payroll	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Contributions as a percentage of covered 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	22 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes

There were no benefit changes during the year.