



CITY OF FREDERICKSBURG

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED

SEPTEMBER 30, 2016

CITY OF FREDERICKSBURG, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2016

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
 <u>Basic Financial Statements</u>	
Government Wide Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Governmental Fund Financial Statements:	
Balance Sheet	14
Reconciliation of Balance Sheet to Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Reconciliation of Statement of Revenues to Statement of Activities	17
Proprietary Fund Financial Statements:	
Statement of Net Assets	18-19
Statement of Revenues, Expenses, and Changes in Fund Net Assets	20-21
Statement of Cash Flows	22-25
Notes of the Financial Statements	26-50
 <u>Supplementary Information</u>	
Budgetary Comparison Schedule – General Fund	51

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Independent Auditor's Report

Mayor and City Council
City of Fredericksburg, Texas
Fredericksburg, Texas 78624

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas as of and for the twelve months ended September 30, 2016 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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.

Opinion

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas as of September 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3–10 and 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Fredericksburg, Texas's basic financial statements. The accompanying supplementary information such as the introductory and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The accompanying other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Klein, Kraus and Company, LLC

Klein, Kraus and Company, LLC
Fredericksburg, Texas 78624

February 24, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Fredericksburg, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2016, by \$49,185,018 (net assets). Of this amount, \$4,827,517 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$1,128,363.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,118,828
- As of September 30, 2016, unreserved fund balance for the General Fund was \$6,695,082 or 45 percent of the current year's total General Fund expenditures of \$14,952,867.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's 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's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported when 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 compensation absences.)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government administration, public safety, streets, parks and recreation, and health services. The business-type activities of the City include electric, water, wastewater, storm water drainage, solid waste, emergency medical services (EMS), and golf operations.

The government-wide financial statements can be found on pages 11 – 13 of 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City 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 current sources and uses 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 on 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.

Beginning on page 14 of this report, information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered to be the major fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining fund statements and schedules elsewhere in this report.

Proprietary Funds. The City maintains two types of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for electric, water, wastewater, storm water drainage, solid waste, emergency medical services, and golf operations. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City’s various functions. The City uses Internal Service Funds to account for the employee health insurance program. The internal service function has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Internal Service Fund is reported in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18 – 25 of this report.

Notes to the Financial Statements. The notes provide 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 26 – 50 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$49,185,018 as of September 30, 2016, compared to \$48,056,655 as of September 30, 2015.

CITY OF FREDERICKSBURG’S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 10,568,835	\$ 9,595,833	\$ 13,058,366	\$ 14,981,011	\$ 23,627,201	\$ 24,576,844
Capital assets	19,070,996	18,086,229	33,796,156	30,953,547	52,867,152	49,039,776
Total assets	<u>29,639,831</u>	<u>27,682,062</u>	<u>46,854,522</u>	<u>45,934,558</u>	<u>76,494,353</u>	<u>73,616,620</u>
Deferred Outflows of Resources	<u>256,002</u>	<u>56,426</u>	<u>193,048</u>	<u>43,719</u>	<u>449,050</u>	<u>100,148</u>
Current liabilities	1,870,565	1,449,842	4,680,111	5,424,578	6,550,676	6,874,420
Noncurrent liabilities	<u>6,712,122</u>	<u>5,716,513</u>	<u>9,927,595</u>	<u>10,291,656</u>	<u>16,639,717</u>	<u>16,008,169</u>
Total liabilities	<u>8,582,687</u>	<u>7,166,355</u>	<u>14,607,706</u>	<u>15,716,234</u>	<u>23,190,393</u>	<u>22,882,589</u>
Deferred Inflows of Resources	<u>156,083</u>	<u>238,285</u>	<u>-167,176</u>	<u>79,429</u>	<u>-11,093</u>	<u>317,714</u>
Net Assets:						
Invested in capital assets,						
Net of related debt	13,084,161	13,036,459	26,435,558	23,164,020	39,519,719	36,200,479
Restricted for Long Term Debt	166,973	5,350	48,890	37,399	215,863	42,749
Restricted for Capital Projects	1,502,535	83,930	3,119,384	6,105,992	4,621,919	6,189,922
Unrestricted	<u>2,969,082</u>	<u>5,363,255</u>	<u>1,858,435</u>	<u>260,250</u>	<u>4,827,517</u>	<u>5,623,505</u>
Total net assets	<u>\$ 17,722,751</u>	<u>\$ 18,488,994</u>	<u>\$ 31,462,267</u>	<u>\$ 29,567,661</u>	<u>\$ 49,185,018</u>	<u>\$ 48,056,655</u>

By far the largest portion of the City’s net assets reflects its investments in capital assets (e.g., land, buildings, equipment and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resource 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 assets \$4,827,517 may be used to meet the government’s ongoing obligations to citizens and creditors.

City of Fredericksburg
Statement of Activities
For Fiscal Years 2016 and 2015

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for Services	\$ 976,509	\$ 1,071,278	\$ 22,112,972	\$ 23,528,424	\$ 23,089,481	\$ 24,599,702
Operating Grants and Contributions	594,464	526,146			594,464	526,146
General Revenues:						
Property Taxes	3,504,367	3,456,756	79,492	64,460	3,583,859	3,521,216
Sales Taxes	5,353,392	5,166,572			5,353,392	5,166,572
Hotel Occupancy Taxes	2,800,168	2,504,457			2,800,168	2,504,457
Other Taxes	667,653	666,931			667,653	666,931
Miscellaneous Revenue	129,399	102,753	1,217,582	2,909,648	1,346,981	3,012,401
Investments Earnings	24,616	11,569	32,823	32,552	57,439	44,121
Total Revenues	<u>\$ 14,050,568</u>	<u>\$ 13,506,462</u>	<u>\$ 23,442,869</u>	<u>\$ 26,535,084</u>	<u>\$ 37,493,437</u>	<u>\$ 40,041,546</u>
Expenses						
Administrative	\$ 3,817,065	\$ 3,619,374			\$ 3,817,065	\$ 3,619,374
Police	4,005,292	3,826,503			4,005,292	3,826,503
Fire	869,795	801,174			869,795	801,174
Streets	2,220,360	2,192,011			2,220,360	2,192,011
Parks	1,845,445	1,732,198			1,845,445	1,732,198
Health	176,072	158,990			176,072	158,990
Food and Wine Festival	138,382	192,221			138,382	192,221
Emergency Management	127,889	125,819			127,889	125,819
Development Services	448,011	432,451			448,011	432,451
Municipal Court	150,138	143,896			150,138	143,896
Engineering	191,853	210,903			191,853	210,903
Electric			\$ 10,797,589	\$ 12,481,283	10,797,589	12,481,283
Water and Sewer			4,113,581	3,873,299	4,113,581	3,873,299
Golf			1,591,062	1,699,030	1,591,062	1,699,030
Landfill			2,149,055	2,217,624	2,149,055	2,217,624
EMS			2,098,119	1,869,146	2,098,119	1,869,146
Drainage Utilities			276,539	257,779	276,539	257,779
Total Expenses	<u>\$ 13,990,302</u>	<u>\$ 13,435,540</u>	<u>\$ 21,025,945</u>	<u>\$ 22,398,161</u>	<u>\$ 35,016,247</u>	<u>\$ 35,833,701</u>
Increase (decrease) in Net Assets Before Transfers	<u>\$ 60,266</u>	<u>\$ 70,922</u>	<u>\$ 2,416,924</u>	<u>\$ 4,136,923</u>	<u>\$ 2,477,190</u>	<u>\$ 4,207,845</u>
Gain (Loss) on Retirement of Assets	31,388	18,015	61,352	79,274	92,740	97,289
Transfers	449,784	1,425,808	(449,784)	(1,425,808)	-	-
Change in Net Assets	<u>\$ 541,438</u>	<u>\$ 1,514,745</u>	<u>\$ 2,028,492</u>	<u>\$ 2,790,389</u>	<u>\$ 2,569,930</u>	<u>\$ 4,305,134</u>
Net Assets, Beginning	\$ 18,488,994	\$ 19,000,962	\$ 29,567,661	\$ 27,427,935	\$ 48,056,655	\$ 46,428,897
Due to GASB 68	(1,307,681)	(2,026,713)	(133,886)	(650,663)	(1,441,567)	(2,677,376)
Prior Period Adjustment	-	-	-	-	-	-
Net Assets, Beginning	<u>\$ 17,181,313</u>	<u>\$ 16,974,249</u>	<u>\$ 29,433,775</u>	<u>\$ 26,777,272</u>	<u>\$ 46,615,088</u>	<u>\$ 43,751,521</u>
Net Assets, Ending	<u>\$ 17,722,751</u>	<u>\$ 18,488,994</u>	<u>\$ 31,462,267</u>	<u>\$ 29,567,661</u>	<u>\$ 49,185,018</u>	<u>\$ 48,056,655</u>

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

As a whole, the government's net assets increased by \$1,128,363 during the current fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds. The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved 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's governmental funds reported combined ending fund balances of \$8,118,828. Refer to page 14 of this report for a more detailed presentation of governmental fund balances.

The General Fund is the chief operating fund of the City. The total fund balance of the General Fund was unreserved and amounted to \$6,695,082.

The fund balance of the City's General Fund decreased by \$1,194,649 during the current fiscal year.

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

Unrestricted net assets of the City's Enterprise Funds at the end of the year amounted to \$2,642,983. Net assets of the City's Enterprise Funds increased by \$2,679,155 in the current year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of September 30, 2016, amounts to \$52,867,152 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and infrastructure.

Major capital asset acquisitions occurring during the current fiscal year included the following:

• Land Purchases	\$524,200
• Police Vehicles	192,153
• Animal Shelter Construction	359,739
• Street Department Equipment	237,444
• Street Improvements/Sidewalks	850,091
• Park Improvements	268,894
• Waste Water Treatment Plant Office/Lab/Workshop	110,613
• Water Department Machinery/Equipment	88,916
• Water/Wastewater System Improvements	3,950,204
• Solid Waste Cell #7 Improvements	247,301
• Solid Waste Department Machinery/Equipment	327,020
• EMS Ambulance Remount/Equipment	273,615
• Drainage Improvements	<u>168,447</u>
	<u>\$7,598,637</u>

Additional information on the City’s capital assets can be found on pages 35 – 36 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$12,305,000. The entire amount is debt backed in full faith and credit of the City.

The City carries bond ratings from Standard and Poor’s of AA and from Moody’s Investors Service of Aa3.

Additional information on the City’s long term-debt can be found in pages 40 – 41 of this report.

PROPERTY TAXES

General Fund Property Tax Rate

In the budget for fiscal year-end September 30, 2016, the adopted property tax rate decreased from \$.2482 to \$.2313 per \$100 of assessed valuation.

Tax Rate, Levy and Collection History

Fiscal Year Ended September 30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2016	0.2313	0.1761	0.0552	3,544,786	92.62%	99.16%
2015	0.2482	0.1992	0.0490	3,489,182	93.51%	99.54%
2014	0.2600	0.1879	0.0721	3,432,200	92.64%	99.76%
2013	0.2647	0.1940	0.0707	3,413,174	92.17%	99.80%
2012	0.2444	0.1917	0.0527	3,163,392	92.38%	99.81%
2011	0.2365	0.1794	0.0571	3,058,476	91.95%	99.87%
2010	0.2319	0.1413	0.0906	3,039,723	90.48%	99.86%
2009	0.2350	0.1608	0.0742	2,994,006	91.52%	99.91%
2008	0.2414	0.1606	0.0808	2,758,368	91.75%	99.91%
2007	0.2566	0.1636	0.0930	2,575,238	92.38%	99.91%
2006	0.2596	0.1557	0.1039	2,353,767	93.14%	99.94%

**City of Fredericksburg
Budget Comparison
For Fiscal Years 2017 and 2016**

	2016-2017 <u>Budget</u>	2015-2016 <u>Budget</u>	Increase (Decrease)	Increase (Decrease)
Revenues				
General Fund	\$ 15,781,883	\$ 14,773,650	\$ 1,008,233	6.82%
Electric	13,041,900	13,953,500	(911,600)	-6.53%
Water & Sewer	6,218,400	6,139,800	78,600	1.28%
Golf	1,489,600	1,968,477	(478,877)	-24.33%
Landfill	2,522,700	2,323,800	198,900	8.56%
EMS	2,296,600	2,007,600	289,000	14.40%
Drainage	143,100	142,300	800	0.56%
Emergency Management	155,315	135,300	20,015	14.79%
Debt Service	708,900	626,700	82,200	13.12%
Internal Service Fund	<u>1,616,148</u>	<u>1,626,000</u>	<u>(9,852)</u>	<u>-0.61%</u>
Total Revenues	<u>\$ 43,974,546</u>	<u>\$ 43,697,127</u>	<u>\$ 277,419</u>	<u>0.63%</u>
Expenditures				
General Fund				
Administrative	\$ 4,919,485	\$ 5,454,215	\$ (534,730)	-9.80%
Police	4,655,628	4,419,425	236,203	5.34%
Fire	919,777	858,100	61,677	7.19%
Street	2,560,942	3,065,832	(504,890)	-16.47%
Park	1,727,544	2,067,934	(340,390)	-16.46%
Development Services	517,723	442,925	74,798	16.89%
Health	193,085	181,900	11,185	6.15%
Municipal Court	177,440	158,800	18,640	11.74%
Engineering	259,758	231,000	28,758	12.45%
Food and Wine Festival	<u>187,700</u>	<u>181,550</u>	<u>6,150</u>	<u>3.39%</u>
	<u>\$ 16,119,082</u>	<u>\$ 17,061,681</u>	<u>\$ (942,599)</u>	<u>-5.52%</u>
Electric	\$ 13,016,063	\$ 13,831,425	\$ (815,362)	-5.89%
Water & Sewer	6,343,546	6,829,485	(485,939)	-7.12%
Golf	1,489,664	1,622,551	(132,887)	-8.19%
Landfill	2,501,758	2,547,054	(45,296)	-1.78%
EMS	2,296,632	2,007,425	289,207	14.41%
Drainage	63,500	213,500	(150,000)	-70.26%
Emergency Management	155,209	135,300	19,909	14.71%
Debt Service	696,344	622,200	74,144	11.92%
Internal Service Fund	<u>1,516,000</u>	<u>1,608,000</u>	<u>(92,000)</u>	<u>-5.72%</u>
Total Expenditures	<u>\$ 44,197,798</u>	<u>\$ 46,478,621</u>	<u>\$ (2,280,823)</u>	<u>-4.91%</u>
Budgeted Revenues in Excess (Deficiency) of Expenditures	<u>\$ (223,252)</u>	<u>\$ (2,781,494)</u>	<u>\$ 2,558,242</u>	

Requests for Information

This financial report is designed to provide a general overview of the City's 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 information should be addressed to Laura Hollenbeak, Director of Finance, 126 West Main, Fredericksburg, Texas 78624 or call (830) 997-7521.



BASIC FINANCIAL STATEMENTS

City of Fredericksburg, Texas
Statement of Net Assets
September 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Convention & Visitors Bureau
ASSETS				
Cash and Cash Equivalents	\$ 8,409,549.22	\$ 6,742,373.58	\$ 15,151,922.80	\$ 638,093.00
Investments - Current	-	650,000.00	650,000.00	
Tax Receivables (Net of Allowance)	720,224.86		720,224.86	
Internal Balances	27,758.16	-	27,758.16	
Intergovernmental Receivable	1,037,213.12	134,938.95	1,172,152.07	
Prepaid Expense			-	
Due from Others	88,239.28		2,458,625.72	43,647.00
Inventory		1,275,431.75	1,275,431.75	
Property and Equipment, Net of Depreciation				
Land	4,168,870.00	1,098,666.14	5,267,536.14	
Buildings	7,693,889.98	6,766,180.91	14,460,070.89	
Improvements	19,990,294.21	55,684,531.04	75,674,825.25	
Machinery & Equipment	7,702,377.23	9,068,624.56	16,771,001.79	110,658.00
Less: Accumulated Depreciation	(20,484,435.07)	(38,821,846.72)	(59,306,281.79)	(80,668.00)
Total Assets	<u>\$ 29,353,980.99</u>	<u>\$ 44,969,286.65</u>	<u>\$ 74,323,267.64</u>	<u>\$ 711,730.00</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow Related To Pension	\$ 256,002.00	\$ 193,048.00	\$ 449,050.00	
Total Deferred Outflows of Resources	<u>\$ 256,002.00</u>	<u>\$ 193,048.00</u>	<u>\$ 449,050.00</u>	
LIABILITIES				
Accounts Payable	\$ 1,101,271.09	\$ 1,355,666.73	\$ 2,456,937.82	\$ 40,743.00
Accrued Payroll	215,163.04	191,916.54	407,079.58	
Intergovernmental Payable	106,241.41	137,183.61	243,425.02	
Accrued Interest Payable	23,718.30	31,424.42	55,142.72	
Internal Balances	-	27,758.16	27,758.16	
Deferred Revenues	64,039.11	568,284.78	632,323.89	
Other Current Liabilities	74,282.81	482,641.72	556,924.53	
Net Pension Liability	3,434,312.00	1,144,772.00	4,579,084.00	
Noncurrent Liabilities				
Due Within One Year	950,319.36	592,985.00	1,543,304.36	
Due in More Than One Year	5,761,802.30	9,334,610.14	15,096,412.44	
Total Liabilities	<u>\$ 11,731,149.42</u>	<u>\$ 13,867,243.10</u>	<u>\$ 25,598,392.52</u>	<u>\$ 40,743.00</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow Related To Pension	\$ 156,083.00	\$ (167,176.00)	\$ (11,093.00)	
Total Deferred Inflows of Resources	<u>\$ 156,083.00</u>	<u>\$ (167,176.00)</u>	<u>\$ (11,093.00)</u>	
NET ASSETS				
Invested in Fixed Assets, Net of Related Debt	\$ 13,084,160.61	\$ 26,435,558.83	\$ 39,519,719.44	
Restricted for Long Term Debt	166,972.88	48,889.83	215,862.71	
Restricted for Capital Projects	1,502,535.01	3,119,383.83	4,621,918.84	
Unrestricted Net Assets	2,969,082.07	1,858,435.06	4,827,517.13	670,987.00
Total Net Assets	<u>\$ 17,722,750.57</u>	<u>\$ 31,462,267.55</u>	<u>\$ 49,185,018.12</u>	<u>\$ 670,987.00</u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs	Program	
Primary Government	Expenses	Charges for Services
Governmental Activities:		
Municipal Court	\$ 150,138.16	
Administration	1,149,808.89	35,149.32
Tourism	2,667,255.79	
Engineering	191,852.92	
Police	4,005,292.30	101,229.15
Fire	869,795.14	29,721.55
Emergency Management	127,888.58	
Streets	2,220,359.96	1,010.29
Parks	1,845,445.21	471,484.12
Health	176,072.37	99,019.60
Food and Wine Festival	138,381.71	88,823.28
Development Services	448,010.64	150,071.78
Total Governmental Activities	\$ 13,990,301.67	\$ 976,509.09
Business-type Activities:		
Electric	\$ 10,797,588.79	\$ 11,685,945.98
Water	4,113,580.70	5,822,509.23
Golf	1,591,061.77	958,468.59
Landfill	2,149,055.65	2,467,237.93
EMS	2,098,119.48	1,100,991.44
Drainage	276,538.99	77,818.94
Total Business-type Activities	\$ 21,025,945.38	\$ 22,112,972.11
Total Government	\$ 35,016,247.05	\$ 23,089,481.20
Component Unit		
Fredericksburg Convention and Visitors Bureau	\$ 2,103,418.00	

General Revenues:
Taxes
Property Taxes
Sales Tax
Hotel Occupancy Tax
Other Taxes
Miscellaneous Revenue
Investment Earnings
Transfers In (Out)
Gain (Loss) on Retirement of Fixed Assets
Total General Revenues
Change in Net Assets
Net Assets - Beginning
Due to GASB 68
Net Assets - Ending

The notes to the Financial Statements are an integral part of this statement.

Revenues	Net (Expense) Revenue and Changes in Net Assets			Component Unit Convention & Visitors Bureau
	Governmental Activities	Business-type Activities	Total	
Operating Grants and Contributions				
	\$ (150,138.16)		\$ (150,138.16)	
30,000.00	(1,084,659.57)		(1,084,659.57)	
12,500.00	(2,654,755.79)		(2,654,755.79)	
	(191,852.92)		(191,852.92)	
46,767.70	(3,857,295.45)		(3,857,295.45)	
338,572.50	(501,501.09)		(501,501.09)	
80,335.75	(47,552.83)		(47,552.83)	
	(2,219,349.67)		(2,219,349.67)	
48,000.00	(1,325,961.09)		(1,325,961.09)	
38,287.95	(38,764.82)		(38,764.82)	
	(49,558.43)		(49,558.43)	
	(297,938.86)		(297,938.86)	
<u>\$ 594,463.90</u>	<u>\$ (12,419,328.68)</u>	<u>\$ -</u>	<u>\$ (12,419,328.68)</u>	
		\$ 888,357.19	\$ 888,357.19	
		1,708,928.53	1,708,928.53	
		(632,593.18)	(632,593.18)	
		318,182.28	318,182.28	
		(997,128.04)	(997,128.04)	
		(198,720.05)	(198,720.05)	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,087,026.73</u>	<u>\$ 1,087,026.73</u>	
<u>\$ 594,463.90</u>	<u>\$ (12,419,328.68)</u>	<u>\$ 1,087,026.73</u>	<u>\$ (11,332,301.95)</u>	
				<u>\$ (2,103,418.00)</u>
	3,504,366.55	79,492.23	3,583,858.78	
	5,353,392.29		5,353,392.29	
	2,800,167.64		2,800,167.64	
	667,653.41		667,653.41	
	129,399.47	1,217,581.51	1,346,980.98	2,275,628.00
	24,615.98	32,823.02	57,439.00	
	449,783.53	(449,783.53)	0.00	
	31,387.50	61,352.00	92,739.50	
	<u>12,960,766.37</u>	<u>941,465.23</u>	<u>13,902,231.60</u>	<u>2,275,628.00</u>
	541,437.69	2,028,491.96	2,569,929.65	172,210.00
	18,488,993.97	29,567,661.13	48,056,655.10	498,777.00
	(1,307,681.09)	(133,885.54)	(1,441,566.63)	
	<u>17,722,750.57</u>	<u>31,462,267.55</u>	<u>49,185,018.12</u>	<u>670,987.00</u>

**City of Fredericksburg
Governmental Funds
Balance Sheet
September 30, 2016**

	General	Capital Project	Debt Service	Total
Assets				
Cash and Cash Equivalents	\$ 6,141,557.97	\$ 1,497,535.01	\$ 165,826.76	\$ 7,804,919.74
Taxes Receivable (Net of Allowance for Uncollectible)	720,224.86			720,224.86
Receivable (Net of Allowance for Uncollectible)	88,239.28	-		88,239.28
Intergovernmental Receivables	1,037,213.12			1,037,213.12
Due from Other Funds	242,455.21		(1,353.88)	241,101.33
Total Assets	<u>\$ 8,229,690.44</u>	<u>\$ 1,497,535.01</u>	<u>\$ 164,472.88</u>	<u>\$ 9,891,698.33</u>
Liabilities and Fund Balance				
Accounts Payable	\$ 801,044.74	\$ 150,226.35		\$ 951,271.09
Wages and Salaries Payable	215,163.04			215,163.04
Intergovernmental Payable	106,241.41			106,241.41
Due to other Funds	197,814.87	88,035.00		285,849.87
Deferred Revenues	140,062.06			140,062.06
Other Current Liabilities	74,282.81			74,282.81
Total Liabilities	<u>\$ 1,534,608.93</u>	<u>\$ 238,261.35</u>	<u>\$ -</u>	<u>\$ 1,772,870.28</u>
Fund Balance				
Reserved for:				
Debt service			\$ 164,472.88	\$ 164,472.88
Capital Improvements		\$ 1,259,273.66		1,259,273.66
Unreserved reported in General Fund	\$ 6,695,081.51			6,695,081.51
Total Fund Balances	<u>\$ 6,695,081.51</u>	<u>\$ 1,259,273.66</u>	<u>\$ 164,472.88</u>	<u>\$ 8,118,828.05</u>
Total Liabilities and Fund Balance	<u>\$ 8,229,690.44</u>	<u>\$ 1,497,535.01</u>	<u>\$ 164,472.88</u>	<u>\$ 9,891,698.33</u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg
 Reconciliation of the Governmental Funds Balance Sheet to
 the Statement of Net Assets
 September 30, 2016

Total Fund Balances - Governmental Funds	\$8,118,828
The City uses an internal service fund to charge the cost of hospitalization self insurance to appropriate functions in other governmental funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net assets.	527,137
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$37,321,041 and the accumulated depreciation was \$19,234,812. The net effect of including the beginning balances for capital assets (net of accumulated depreciation) in the government-wide financials is an increase (decrease) to net assets.	18,086,228
Deferred outflow of resources represent the consumption of net assets that are applicable to a future reporting period.	199,573
Current year net capital outlays are expenditures in the fund financial statements, but they should be shown as increases to capital assets in the government-wide financial statements. The net effect of including 2016 net capital outlays is an increase (decrease) to net assets.	2,298,361
The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to increase (decrease) net assets.	(1,483,105)
Long term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including beginning balances for long-term debt in the government-wide activities is to increase (decrease) net assets.	(9,332,681)
Current year proceeds from issuance of long-term debt are reported as other financing sources in the fund financial statements, but they should be shown as an increase to long-term debt in the government-wide financial statements. The net effect of including 2016 bond proceeds is an increase (decrease) to net assets.	(1,530,000)
Current year long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as reductions in long-term debt in the government-wide financial statements. The net effect of including 2016 debt principal payments is to increase (decrease) net assets.	704,013
Deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period.	82,202
Various other reclassification and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	52,195
Net Assets of Governmental Activities	<u><u>\$17,722,751</u></u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2016

	General	Capital Project	Debt Service	Total
Revenues				
General Property Taxes	\$ 2,731,045.52		\$ 779,391.18	\$ 3,510,436.70
General Sales and Use Taxes	5,353,392.29			5,353,392.29
Hotel Occupancy Taxes	2,800,167.64			2,800,167.64
Other Taxes	667,653.41			667,653.41
Licenses and Permits	248,059.94			248,059.94
Charges for Services	1,010.29			1,010.29
Fines	90,114.65			90,114.65
Pavilion and Camping Fees	403,080.00			403,080.00
Rentals	35,684.32			35,684.32
Intergovernmental Revenue	483,890.28			483,890.28
Grants	49,616.62			49,616.62
Investment Earnings	24,416.43	\$ 35.01	164.54	24,615.98
Other Revenues	388,916.36			388,916.36
Total Revenues	<u>\$ 13,277,047.75</u>	<u>\$ 35.01</u>	<u>\$ 779,555.72</u>	<u>\$ 14,056,638.48</u>
Expenditures				
Municipal Court	\$ 153,267.57			\$ 153,267.57
Administration	1,002,989.16	\$ 28,353.00		1,031,342.16
Tourism	2,667,255.79			2,667,255.79
Police	3,898,376.03			3,898,376.03
Fire	749,286.21			749,286.21
Emergency Management	127,388.58			127,388.58
Streets	1,601,149.93			1,601,149.93
Parks	1,442,537.58			1,442,537.58
Health	180,247.38			180,247.38
Food and Wine Festival	138,381.71			138,381.71
Development Services	458,842.92			458,842.92
Engineering	200,205.73			200,205.73
Debt Service				
Principal	264,207.80		\$ 498,347.50	762,555.30
Interest	11,131.17		123,731.88	134,863.05
Capital Outlays	2,057,599.73	240,761.35		2,298,361.08
Total Expenditures	<u>\$ 14,952,867.29</u>	<u>\$ 269,114.35</u>	<u>\$ 622,079.38</u>	<u>\$ 15,844,061.02</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (1,675,819.54)</u>	<u>\$ (269,079.34)</u>	<u>\$ 157,476.34</u>	<u>\$ (1,787,422.54)</u>
Other Financing Sources (Uses)				
Sale of Real and Personal Property	\$ 31,387.50			\$ 31,387.50
Transfers in	1,669,500.00		\$ 1,647.00	1,671,147.00
Transfers (out)	(1,219,716.47)	\$ (1,647.00)		(1,221,363.47)
Proceeds from Issuance of Debt		1,530,000.00		1,530,000.00
Total Other Financing Sources (Uses)	<u>\$ 481,171.03</u>	<u>\$ 1,528,353.00</u>	<u>\$ 1,647.00</u>	<u>\$ 2,011,171.03</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (1,194,648.51)</u>	<u>\$ 1,259,273.66</u>	<u>\$ 159,123.34</u>	<u>\$ 223,748.49</u>
Fund Balances - Beginning	7,889,730.02	-	5,349.54	7,895,079.56
Prior Period Adjustment				-
Fund Balances - Ending	<u>\$ 6,695,081.51</u>	<u>\$ 1,259,273.66</u>	<u>\$ 164,472.88</u>	<u>\$ 8,118,828.05</u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
 Changes in Fund Balances to the Statement of Activities
 September 30, 2016

Total Net Change in Fund Balances - Governmental Funds \$223,749

The City uses an internal service fund to charge the cost of hospitalization insurance to the governmental funds. The net income (loss) of this internal service fund is consolidated with the governmental fund in the Statement of Activities. 331,190

Governmental funds report capital outlays as expenditures. However in the Statement of Activities these costs are reported as depreciation expense to allocate the expenditures over the life of the asset.

Capital Outlays	2,298,361
Depreciation Expense	(1,483,105)

Bond proceeds provide current financial resources to government funds, but issuing debt increases long term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Bond Proceeds	(1,530,000)
Principal Payments	762,555

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

Compensated Balances	(58,543)
Accrued Interest Expense	3,301

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy and eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest.

Deferred Revenue	(6,070)
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Change in Net Assets of Governmental Activities \$541,438

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Proprietary Funds
Statement of Net Assets
September 30, 2016

	Business-type Activities - Enterprise Funds			
	Electric	Water	Golf	Landfill
ASSETS				
Current assets:				
Cash and Cash Equivalents	\$ 1,452,320.96	\$ 5,213,377.58	\$ (480,470.98)	\$ 762,768.17
Investments		400,000.00		250,000.00
Internal Balances	865,339.36			865,339.36
Intergovernmental Receivable	1,602.07	1,602.07		
Accounts Receivable (Net of Allowance)	1,143,307.61	559,729.54		347,994.49
Inventory	922,124.39	265,693.06	87,614.30	
Total Current Assets	<u>\$ 4,384,694.39</u>	<u>\$ 6,440,402.25</u>	<u>\$ (392,856.68)</u>	<u>\$ 2,226,102.02</u>
Non-current Assets:				
Property and Equipment				
Land	\$ 89,475.12	\$ 494,243.13	\$ 305,398.59	\$ 209,549.30
Buildings	2,039,885.92	2,496,385.92	1,753,472.54	107,770.44
Improvements	8,410,157.89	33,598,494.19	3,206,159.00	5,274,853.96
Machinery and Equipment	1,375,202.41	2,178,122.85	634,607.69	3,493,969.18
Less: Accumulated Depreciation	(9,445,892.84)	(15,400,241.41)	(2,491,010.00)	(7,219,207.30)
Total Noncurrent Assets	<u>\$ 2,468,828.50</u>	<u>\$ 23,367,004.68</u>	<u>\$ 3,408,627.82</u>	<u>\$ 1,866,935.58</u>
Total Assets	<u>\$ 6,853,522.89</u>	<u>\$ 29,807,406.93</u>	<u>\$ 3,015,771.14</u>	<u>\$ 4,093,037.60</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 878,231.08	\$ 409,005.32	\$ 22,528.58	\$ 20,768.27
Accrued Payroll	36,113.06	53,944.88	24,763.38	33,957.27
Intergovernmental Payable	110,367.03		8,728.61	18,087.97
Accrued Interest Payable		25,242.20	605.66	2,945.52
Internal Balances	90,542.88	54,172.09	1,736,409.25	24,854.86
Other Current Liabilities	342,981.43	194,244.83	18,658.52	12,400.00
Capital Leases Payable		35,731.02	42,828.11	216,939.75
Bonds Payable-Current Maturity				
General Obligation Bonds		250,000.00		
Revenue Bonds		285,000.00		
Total Current Liabilities	<u>\$ 1,458,235.48</u>	<u>\$ 1,307,340.34</u>	<u>\$ 1,854,522.11</u>	<u>\$ 329,953.64</u>
Noncurrent Liabilities:				
Bonds Payable-Non Current				
General Obligation Bonds		\$ 255,000.00		
Revenue Bonds		5,940,000.00		
Unamortized Charge-Refunding Bond		(62,983.81)		
Unamortized Premiums (Discount) on Bonds				
Compensated Absences	\$ 148,726.47	126,995.49	\$ 95,658.73	\$ 113,393.41
Closure and Post Closure Liability				2,499,892.13
Total Noncurrent Liabilities	<u>\$ 148,726.47</u>	<u>\$ 6,259,011.68</u>	<u>\$ 95,658.73</u>	<u>\$ 2,613,285.54</u>
Total Liabilities	<u>\$ 1,606,961.95</u>	<u>\$ 7,566,352.02</u>	<u>\$ 1,950,180.84</u>	<u>\$ 2,943,239.18</u>
Net Assets				
Invested in Fixed Assets, Net of Related Debt	\$ 2,468,828.50	\$ 16,601,273.66	\$ 3,397,132.82	\$ 1,649,995.83
Restricted for Long Term Debt		34,877.34		
Restricted for Capital Projects		3,011,406.72		107,977.11
Unrestricted Net Assets	2,777,732.44	2,593,497.19	(2,331,542.52)	(608,174.52)
Total Net Assets	<u>\$ 5,246,560.94</u>	<u>\$ 22,241,054.91</u>	<u>\$ 1,065,590.30</u>	<u>\$ 1,149,798.42</u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Proprietary Funds
Statement of Net Assets
September 30, 2016

		Governmental Activities	
EMS	Drainage	Enterprise Fund Totals	Internal Service Fund
\$ (267,252.35)	\$ 61,630.20	\$ 6,742,373.58	\$ 604,629.48
		650,000.00	
154,439.43	116.89	1,885,235.04	72,506.70
131,734.81		134,938.95	
312,500.36	6,854.44	2,370,386.44	
		1,275,431.75	
<u>\$ 331,422.25</u>	<u>\$ 68,601.53</u>	<u>\$ 13,058,365.76</u>	<u>\$ 677,136.18</u>
		\$ 1,098,666.14	
\$ 368,666		6,766,180.91	
6,906.78	\$ 5,187,959	55,684,531.04	
1,384,392.43	2,330.00	9,068,624.56	
(1,234,003.13)	(3,031,492.04)	(38,821,846.72)	
<u>\$ 525,962.17</u>	<u>\$ 2,158,797.18</u>	<u>\$ 33,796,155.93</u>	<u>\$ -</u>
\$ 857,384.42	\$ 2,227,398.71	\$ 46,854,521.69	\$ 677,136.18
\$ 25,133.48		\$ 1,355,666.73	\$ 150,000.00
43,137.95		191,916.54	
		137,183.61	
1,958.71	\$ 672.33	31,424.42	
7,014.12		1,912,993.20	
		568,284.78	
187,142.84		482,641.72	
	57,985.00	307,985.00	
		285,000.00	
<u>\$ 264,387.10</u>	<u>\$ 58,657.33</u>	<u>\$ 5,273,096.00</u>	<u>\$ 150,000.00</u>
	\$ 121,303.50	\$ 376,303.50	
		5,940,000.00	
	(7,484.32)	(70,468.13)	
	2,237.59	2,237.59	
\$ 101,870.95		586,645.05	
		2,499,892.13	
<u>\$ 101,870.95</u>	<u>\$ 116,056.77</u>	<u>\$ 9,334,610.14</u>	<u>\$ -</u>
<u>\$ 366,258.05</u>	<u>\$ 174,714.10</u>	<u>\$ 14,607,706.14</u>	<u>\$ 150,000.00</u>
\$ 338,819.34	\$ 1,979,508.68	\$ 26,435,558.83	
	14,012.49	48,889.83	
		3,119,383.83	
152,307.03	59,163.44	2,642,983.06	\$ 527,136.18
<u>\$ 491,126.37</u>	<u>\$ 2,052,684.61</u>	<u>\$ 32,246,815.55</u>	<u>\$ 527,136.18</u>

City of Fredericksburg, Texas
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2016

	Business-type Activities - Proprietary Funds		
	Electric	Water	Golf
OPERATING REVENUES			
Electric Sales	\$ 11,643,780.94		
Water Sales		\$ 2,998,169.87	
Sewer Sales		2,809,900.36	
Golf Course Fees			\$ 953,698.20
Garbage Collection and Tipping Fees			
EMS Fees			
Drainage Utilities			
Licenses and Permits	11,639.00	14,439.00	
Property Taxes			
Rents and Royalties	30,526.04	600.00	4,770.39
Other Revenue	204,535.88	506,241.73	3,183.01
Total Operating Revenues	<u>\$ 11,890,481.86</u>	<u>\$ 6,329,350.96</u>	<u>\$ 961,651.60</u>
OPERATING EXPENSES			
Salaries and Wages	\$ 860,342.09	\$ 1,076,319.21	\$ 547,323.28
Employee Benefits	264,397.80	378,195.72	218,013.19
Contracted Services	139,146.06	139,269.98	8,757.59
Other Operating Expenses	9,227,237.76	1,244,160.10	621,216.06
Amortization of Bond Costs		7,871.59	
Depreciation	306,465.08	1,064,135.79	177,215.23
Total Operating Expenses	<u>\$ 10,797,588.79</u>	<u>\$ 3,909,952.39</u>	<u>\$ 1,572,525.35</u>
Operating Income (Loss)	\$ 1,092,893.07	\$ 2,419,398.57	\$ (610,873.75)
Nonoperating Revenues (Expenses):			
Investment Income	\$ 12,744.12	\$ 5,200.12	\$ 29.90
Gain (Loss) on Disposal of Fixed Assets			
Interest Expense		(203,628.31)	(18,536.42)
Transfers to Other Funds	(955,900.00)	(508,400.00)	
Transfers from Other Funds			622,577.00
Gain (Loss) on Sale of Fixed Assets	-	21,365.00	
Total Nonoperating Revenues (Expenses)	<u>\$ (943,155.88)</u>	<u>\$ (685,463.19)</u>	<u>\$ 604,070.48</u>
Changes in Net Assets	\$ 149,737.19	\$ 1,733,935.38	\$ (6,803.27)
Total Net Assets - Beginning	5,096,823.75	20,507,119.53	1,072,393.57
Prior Period Adjustment			
Total Net Assets - Ending	<u>\$ 5,246,560.94</u>	<u>\$22,241,054.91</u>	<u>\$ 1,065,590.30</u>

The notes to the Financial Statements are an integral part of this statement.

				Governmental Activities Internal Service Fund
Landfill	EMS	Drainage	Totals	
			\$ 11,643,780.94	
			2,998,169.87	
			2,809,900.36	
			953,698.20	
\$ 2,467,087.93			2,467,087.93	
	\$ 1,100,991.44		1,100,991.44	
150.00		\$ 77,818.94	77,818.94	
			26,228.00	
0.00		79,492.23	79,492.23	
105.54	502,905.02	10.33	35,896.43	
<u>\$ 2,467,343.47</u>	<u>\$ 1,603,896.46</u>	<u>\$ 157,321.50</u>	<u>\$ 1,216,981.51</u>	<u>\$ 1,613,561.20</u>
			<u>\$ 23,410,045.85</u>	<u>\$ 1,613,561.20</u>
\$ 784,853.95	\$ 952,068.37		\$ 4,220,906.90	
285,266.82	311,299.86		1,457,173.39	
15,169.39	8,743.24	\$ 263.50	311,349.76	
586,922.51	698,259.04	86.43	12,377,881.90	\$ 1,284,491.45
		1,748.93	9,620.52	
<u>476,842.98</u>	<u>124,806.18</u>	<u>267,822.21</u>	<u>2,417,287.47</u>	
<u>\$ 2,149,055.65</u>	<u>\$ 2,095,176.69</u>	<u>\$ 269,921.07</u>	<u>\$ 20,794,219.94</u>	<u>\$ 1,284,491.45</u>
\$ 318,287.82	\$ (491,280.23)	\$ (112,599.57)	\$ 2,615,825.91	\$ 329,069.75
\$ 12,964.23	\$ 40.56	\$ 1,844.09	\$ 32,823.02	\$ 2,119.85
	(2,942.79)	(6,617.92)	-	
(205,200.00)			(231,725.44)	
	597,139.47		(1,669,500.00)	
39,987.00			1,219,716.47	
<u>\$ (152,248.77)</u>	<u>\$ 594,237.24</u>	<u>\$ (4,773.83)</u>	<u>\$ 61,352.00</u>	<u>\$ 2,119.85</u>
			<u>\$ (587,333.95)</u>	
\$ 166,039.05	\$ 102,957.01	\$ (117,373.40)	\$ 2,028,491.96	\$ 331,189.60
983,759.37	388,169.36	2,170,058.01	30,218,323.59	195,947.00
<u>\$ 1,149,798.42</u>	<u>\$ 491,126.37</u>	<u>\$ 2,052,684.61</u>	<u>\$ 32,246,815.55</u>	<u>\$ 527,136.60</u>

City of Fredericksburg, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2016

	Enterprise Funds	
	Electric	Water
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 11,987,280.25	\$ 6,457,962.31
Cash Payments to Employees for Services	(1,116,136.83)	(1,434,766.05)
Cash Payments for Suppliers	(9,528,796.75)	(1,511,398.17)
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,342,346.67</u>	<u>\$ 3,511,798.09</u>
Cash Flows from Non-capital Financing Activities		
Operating Transfers Out	\$ (955,900.00)	\$ (508,400.00)
Operating Transfers In		
Net Cash Provided (Used) by Non-capital Financing Activities	<u>\$ (955,900.00)</u>	<u>\$ (508,400.00)</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of Capital Assets	\$ (44,137.27)	\$ (4,165,404.45)
Capital Lease Proceeds		
Principal Paid on Capital Debt		(555,307.84)
Interest Paid on Capital Debt		(203,628.31)
Proceeds from the Sale of Capital Assets		21,365.00
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (44,137.27)</u>	<u>\$ (4,902,975.60)</u>
Cash Flows from Investing Activities		
Interest Received on Investments	\$ 12,744.12	\$ 5,200.12
Net Cash Provided by Investing Activities	<u>\$ 12,744.12</u>	<u>\$ 5,200.12</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 355,053.52</u>	<u>\$ (1,894,377.39)</u>
Cash and Cash Equivalents, Beginning	<u>1,097,268.00</u>	<u>7,507,754.00</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 1,452,321.52</u></u>	<u><u>\$ 5,613,376.61</u></u>

The notes to the Financial Statements are an integral part of this statement

Golf	Landfill	EMS	Drainage	Totals	Internal Service Fund
\$ 961,651.60 (760,289.09) (739,092.60)	\$ 2,313,106.98 (1,061,266.50) (815,783.10)	\$ 1,818,775.10 (1,249,407.29) (1,007,427.25)	\$ 157,258.06 (12,295.49)	\$ 23,696,034.30 (5,621,865.76) (13,614,793.36)	\$ 1,622,874.20 (1,304,530.15)
\$ (537,730.09)	\$ 436,057.38	(438,059.44)	\$ 144,962.57	\$ 4,459,375.18	\$ 318,344.05
\$ 622,577.00	\$ (205,200.00)	\$ 597,139.47		\$ (1,669,500.00) 1,219,716.47	
\$ 622,577.00	\$ (205,200.00)	\$ 597,139.47	\$ -	\$ (449,783.53)	\$ -
\$ (33,970.60) 33,970.60 (11,611.49) (18,536.42)	\$ (574,321.37) 305,221.00 (229,644.81) 39,987.00	\$ (273,615.15) 273,615.15 (157,182.93) (2,942.79)	\$(168,447.48) (56,652.50) (6,617.92)	\$ (5,259,896.32) 612,806.75 (1,010,399.57) (231,725.44) 61,352.00	
\$ (30,147.91)	\$ (458,758.18)	\$ (160,125.72)	\$(231,717.90)	\$ (5,827,862.58)	\$ -
\$ 29.90	\$ 12,964.23	\$ 40.56	\$ 1,844.09	\$ 32,823.02	\$ 2,119.85
\$ 29.90	\$ 12,964.23	\$ 40.56	\$ 1,844.09	\$ 32,823.02	\$ 2,119.85
\$ 54,728.90 (535,199.00)	\$ (214,936.57) 1,227,706.00	\$ (1,005.13) (266,247.00)	\$ (84,911.24) 146,543.00	\$ (1,785,447.91) 9,177,825.00	\$ 320,464 284,166.00
\$ (480,470.10)	\$ 1,012,769.43	\$ (267,252.13)	\$ 61,631.76	\$ 7,392,377.09	\$ 604,629.90

City of Fredericksburg, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2016

	Enterprise Funds	
	Electric	Water
<u>Provided (Used) by Operating Activities:</u>		
Operating Income (Loss)	\$ 1,092,893.07	\$ 2,463,612.46
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:		
Depreciation	306,465.08	1,064,135.79
Amortization		7,871.59
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (Increase) in Receivables	96,798.39	84,397.46
Decrease (Increase) in Due from Other Funds	45,023.64	119,281.11
Decrease (Increase) in Due from Other Governments	(1,602.07)	(1,602.07)
Decrease (Increase) in Inventories	(64,075.39)	(22,023.06)
Increase (Decrease) in Accounts Payable	(138,007.92)	(254,813.68)
Increase (Decrease) in Wages Payable	8,603.06	19,748.88
Increase (Decrease) in Interest Payable		(1,726.80)
Increase (Decrease) in Due to Other Funds	(8,953.12)	(2,871.91)
Increase (Decrease) in Due to Other Governments	(21,902.97)	(1,193.00)
Increase (Decrease) in Compensated Absences Payable	16,842.47	22,077.49
Increase (Decrease) in Landfill Closure Liability		
Increase (Decrease) in Other Current Liabilities	10,262.43	14,903.83
Net Cash Provided by (Used For) Operating Activities	\$ 1,342,346.67	\$ 3,511,798.09

The notes to the Financial Statements are an integral part of this statement.

Golf	Landfill	EMS	Drainage	Totals	Internal Service Fund
\$(610,873.75)	\$ 318,287.82	\$(491,280.23)	\$(112,599.57)	\$ 2,660,039.80	\$ 329,069.75
177,215.23	476,842.98	124,806.18	267,822.21	2,417,287.47	
			1,748.93	9,620.52	
	(154,236.49)	214,878.64	(63.44)	241,774.56	9,313.00
	45,023.64	(132,747.43)	883.11	77,464.07	(20,038.70)
		(131,734.81)		(134,938.95)	
(5,218.30)				(91,316.75)	
(25,616.42)	(385,822.73)	11,151.48	(12,652.00)	(805,761.27)	
5,047.38	8,854.27	13,960.95		56,214.54	
(230.34)	1,370.52	1,445.71	(176.67)	682.42	
(89,055.75)	3,304.86	2,338.12		(95,237.80)	
(4,841.39)	337.97	(78,108.00)		(105,707.39)	
14,726.73	8,596.41	27,229.95		89,473.05	
	113,498.13			113,498.13	
1,116.52				26,282.78	
<u>\$(537,730.09)</u>	<u>\$ 436,057.38</u>	<u>\$(438,059.44)</u>	<u>\$ 144,962.57</u>	<u>\$ 4,459,375.18</u>	<u>\$ 318,344.05</u>



NOTES TO THE FINANCIAL STATEMENTS

CITY OF FREDERICKSBURG, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fredericksburg, Texas (the "City") is a municipal corporation incorporated under Article XI, Section 4 of the Constitution of the State of Texas. The City operates under a Council-Manager form of government and provides such services as are authorized by its code of ordinances and its inhabitants. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The City has no blended component units. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

A. Discretely Presented Component Unit

The Fredericksburg Convention and Visitor Bureau's mission is to create a positive business environment, take a leadership role in community affairs, be an information resource for its members, help in providing a better quality of life for its citizens and increase growth of the overnight tourism and meeting industry in Fredericksburg.

The Bureau is governed by a Board of Directors comprised of 11 members. Each member is appointed by the City Council of the City of Fredericksburg. The Bureau also provides the City with financial information, as required by City Council. In addition, the annual budget for the Bureau must be approved by City Council. These facts distinguish the Bureau as a discretely presented component unit of the City.

Complete financial statements for the component unit may be obtained at the Fredericksburg Convention and Visitor Bureau's administrative office, which is located at 302 E. Austin St., Fredericksburg, Texas 78624.

B. Government-Wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who

purchase, use, or indirectly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measureable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City has the following major governmental fund:

The **General Fund** – is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The City reports the following proprietary funds:

The **Electric Fund** – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates electricity services.

The **Water and Sewer Fund** – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates water and sewer services.

The **Golf Course Fund** – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates a golf course facility.

The **Solid Waste Fund** – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates a sanitary landfill.

The **Emergency Medical Service Fund (EMS)** – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates Emergency Medical Services jointly with the County of Gillespie.

The **Drainage Utilities Fund** – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates drainage utilities services.

Additionally, the government reports the following fund types:

Internal Service Fund account for Health Insurance services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenue includes all taxes.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

Cash and temporary investments consist of demand deposits, time deposits, and balances in public funds investment pools. Short-term investments are stated at cost.

For the purpose of the statement of cash flows, the Proprietary Fund Types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

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 noncurrent portion of interfund loans). There were no balances that were considered "advanced to/from other funds" at September 30, 2016. 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".

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is based on historical collection rates.

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Gillespie Central Appraisal District ("GCAD") establishes appraised values. Taxes are levied by the City Council based on the appraised values received from the GCAD. The Gillespie Central Appraisal District Tax Assessor performs billings and collection of tax levies.

3. Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories in the Enterprise Fund are valued at cost (first-in, first-out method).

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. (The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year.) 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.

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

Assets	Years
Buildings	10 – 50
Improvements other than buildings	10 – 50
Equipment	5 – 15
Infrastructure	30

5. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused personal time off (PTO). Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Employees may only carry 480 hours of PTO over into the next calendar year. Expenditures are reported for these amounts.

6. 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. 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.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for the use for specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

9. Use of Estimates

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

10. Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. The reclassifications did not change total assets, total liabilities, total fund equity, total revenue of funds and total expense/expenditures.

2. 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 Assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “*Various other reclassifications and eliminations*” The details of this \$52,195 difference are as follows:

Deferred Revenues	\$ 75,913
Accrued Interest Expense	<u>(23,718)</u>
Net adjustment to increase <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>	<u>\$ 52,195</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 revenue, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “*Various other reclassifications and eliminations*” The details of this \$(2,993) difference are as follows:

Reclass delinquent property taxes collected in current year	\$ <u>(2,993)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>\$ (2,993)</u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements.

1. At least 30 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The proposed budget includes estimated revenue and proposed expenditures for the General and Special Revenue Funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally adopted on a fund basis by the City Council.
4. The City Council can adjust the budget during its formal City Council meetings.
5. Actual expenditures cannot exceed the legally-adopted budget.
6. Appropriations lapse at the end of the year.

7. Budgets are adopted on a basis consistent with generally accepted accounting principles.

4. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

As of September 30, 2016, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$450,529	30
Portfolio weighted average maturity (days)	\$450,529	30

The City's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair market values by maintaining a weighted average days to maturity for the operating fund portfolio of less than 360 days. The maximum allowable maturity for any investment is 3 years.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2016, the City had cash deposits of \$15,345,844. The total fair market value of pledged securities held as collateral amounted to \$17,714,786. In addition, \$250,000 of the deposits are covered by FDIC insurance.

Credit Risk. It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's investments as of September 30, 2016, were rated as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
TexPool	AAAm	Standard & Poor's

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

1. Obligations of the U.S., its agencies and instrumentalities;

2. Certificates of Deposit issued by state and national banks or savings or loan associations domiciled in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation or collateralized in accordance with Section 2256.010, the Texas Government Code, in face amount not to exceed \$250,000;
3. No-load money market mutual funds; and
4. TexPool, Lone Star Investment Pool and MBIA Class.

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

Receivables

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

	Government Funds			Enterprise Funds			Totals
	General	Electric	Water	Landfill	EMS	Drainage	
Taxes	\$727,724.86						\$727,724.86
Due from Other Governments	1,037,213.12	\$1,602.07	\$1,602.07		\$131,734.81		1,172,152.07
Customer Accounts	66,455.22	1,153,379.06	564,472.05	\$ 349,093.24	357,635.56	\$ 6,912.91	2,497,948.04
Notes	26,250.45						26,250.45
Interest	-	-	16.44	16.44	-	-	32.88
Gross Receivables	1,857,643.65	1,154,981.13	566,090.56	349,109.68	489,370.37	6,912.91	4,424,108.30
Less: Allowance for Uncollectibles	(11,966.39)	(10,071.45)	(4,758.95)	(1,115.19)	(45,135.20)	(58.47)	(73,105.65)
Net Total Receivables	\$1,845,677.26	\$1,144,909.68	\$561,331.61	\$347,994.49	\$444,235.17	\$6,854.44	\$4,351,002.65

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

General Fund – Deferred Revenues

Fines Receivable	\$	59,400.69
Taxes Receivable – Delinquent		<u>80,661.37</u>
Total Deferred Revenues	\$	<u>140,062.06</u>

Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,644,669.80	\$ 524,200.20	\$ -	\$ 4,168,870.00
Total assets not being depreciated	<u>3,644,669.80</u>	<u>524,200.20</u>	<u>-</u>	<u>4,168,870.00</u>
Capital assets, being depreciated:				
Buildings	7,334,151.46	359,738.52	-	7,693,889.98
Improvements other than buildings	18,860,327.69	1,129,966.52	-	19,990,294.21
Equipment	7,481,891.65	454,076.88	233,591.30	7,702,377.23
Total capital assets being depreciated	<u>33,676,370.80</u>	<u>1,943,781.92</u>	<u>233,591.30</u>	<u>35,386,561.42</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>19,234,811.87</u>	<u>1,483,104.50</u>	<u>233,481.30</u>	<u>20,484,435.07</u>
Total capital assets being depreciated, net	<u>14,441,558.93</u>	<u>460,677.42</u>	<u>110.00</u>	<u>14,902,126.35</u>
Governmental activities capital assets, net	\$ <u>18,086,228.73</u>	\$ <u>984,877.62</u>	\$ <u>110.00</u>	\$ <u>19,070,996.35</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,082,994.14	\$ 15,672.00	\$ -	\$ 1,098,666.14
Total assets not being depreciated	<u>1,082,994.14</u>	<u>15,672.00</u>	<u>-</u>	<u>1,098,666.14</u>
Capital assets, being depreciated:				
Buildings	6,655,568.41	110,612.50	-	6,766,180.91
Improvements other than buildings	51,274,440.88	4,410,090.16	-	55,684,531.04
Equipment	8,601,813.93	723,521.66	256,711.03	9,068,624.56
Total capital assets being depreciated	<u>66,531,823.22</u>	<u>5,244,224.32</u>	<u>256,711.03</u>	<u>71,519,336.51</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>36,661,270.28</u>	<u>2,417,287.47</u>	<u>256,711.03</u>	<u>38,821,846.72</u>
Total capital assets being depreciated, net	<u>29,870,552.94</u>	<u>2,826,936.85</u>	<u>-</u>	<u>32,697,489.79</u>
Business-type activities capital assets, net	<u>30,953,547.08</u>	<u>2,842,608.85</u>	<u>-</u>	<u>33,796,155.93</u>
Total City Net Capital Assets	\$ <u>49,039,775.81</u>	\$ <u>3,827,486.47</u>	\$ <u>110.00</u>	\$ <u>52,867,152.28</u>

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

Governmental activities:	
Administrative	\$ 124,602
Police	208,685
Fire	130,061
Streets	636,758
Parks	379,091
Health	753
Engineering	2,654
Emergency Management	<u>500</u>
Total depreciation expense – governmental activities	\$ <u>1,483,104</u>
Business-type activities:	
Electric	\$ 306,465
Water and Sewer	1,064,136
Golf	177,215
Landfill	476,843
EMS	124,806
Drainage Utilities	<u>267,822</u>
Total depreciation expense – business-type activities	\$ <u>2,417,287</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2016, is as follows:

	DUE TO	DUE FROM
General Fund		
Electric – In Lieu of Taxes		\$85,200
Water – In Lieu of Taxes		45,800
Landfill – In Lieu of Taxes		17,200
EMS	154,440	
Drainage	117	
Emergency Management		3,720
Debt Service	1,146	
Capital Projects		90,535
Hospitalization Insurance	38,345	
Electric Fund		
General Fund – In Lieu of Taxes	85,200	
Golf		865,339
Hospitalization Insurance	5,343	
Water & Sewer Fund		
General Fund – In Lieu of Taxes	45,800	
Hospitalization Insurance	8,372	
Golf Fund		
Electric	865,339	
Landfill	865,339	
Hospitalization	5,731	
Landfill		
General Fund – In Lieu of Taxes	17,200	
Golf		865,339
Hospitalization Insurance	7,655	
EMS		
General Fund		154,440
Hospitalization Insurance	7,014	
Drainage		
General Fund		117
Emergency Management		
General Fund	3,720	
Hospitalization Insurance	47	
Debt Service		
General Fund		1,146
Capital Projects		(2,500)
Capital Projects		
General Fund	90,535	
Debt Service	(2,500)	
Hospitalization Insurance		
General Fund		38,345
Electric		5,343
Water & Sewer		8,372
Golf		5,731
Landfill		7,655
EMS		7,014
Emergency Management		47
Total Due To/Due From	\$ 2,198,843	\$ 2,198,843

The balances of \$865,339 due to the Electric Fund and the Solid Waste Fund represent amounts that were lent to the Golf Course to fund 2011-12 renovations to the Golf Course. The Note's terms

include a 1% annual interest rate and a twenty year amortization period with a 10/1/2034 maturity date.

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and payments between funds are made.

Interfund Transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Electric	\$ 955,900	
Water & Sewer	508,400	
Landfill	205,200	
EMS		\$ 597,139
Golf		622,577
Electric Fund		
General Fund		955,900
Water and Sewer Fund		
General Fund		508,400
Landfill		
General Fund		205,200
EMS		
General Fund	597,139	
Golf		
General Fund	622,577	
Total Transfers	\$ <u>2,889,216</u>	\$ <u>2,889,216</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as the debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

In the year ended September 30, 2016, the City made payments from various funds to the General Fund in lieu of taxes. GASB 34 requires that these payments be treated as transfers. Transfers were made from the following funds:

Electric	\$955,900
Water and Sewer	508,400
Landfill	<u>205,200</u>
	<u>\$1,669,500</u>

Capital Leases

The government has acquired certain fixed assets for governmental activities through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016 were as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>
2016	275,339	439,364
2017	275,339	324,414
2018	127,740	152,365
2019	70,296	9,710
2020	70,296	9,709
2021	<u>70,295</u>	<u>-</u>
Total minimum lease payments	889,305	935,562
Less: amount representing interest	<u>(33,973)</u>	<u>(15,034)</u>
Present value of minimum lease payments	<u>\$855,332</u>	<u>\$920,528</u>

Long-term Liabilities

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 4,364,059.00	\$ -	\$ 498,347.50	\$ 3,865,711.50	\$ 567,014.50
Limited tax notes	-	1,530,000.00		1,530,000.00	
Total bonds payable	4,364,059.00	1,530,000.00	498,347.50	5,395,711.50	567,014.50
Capitalized leases	685,711.00	169,621.04	264,207.80	591,124.24	266,067.93
Compensated absences	666,743.12	58,542.80	-	725,285.92	-
Total governmental activities	\$ 5,716,513.12	\$ 1,758,163.84	\$ 762,555.30	\$ 6,712,121.66	\$ 833,082.43
Business-type activities					
General obligation bonds:					
General obligation bonds	\$ 985,941.00	\$ -	\$ 301,652.50	\$ 684,288.50	\$ 307,985.50
Less: Unamortized issuance costs	(18,016.69)	-	(6,303.32)	(11,713.37)	-
Add: Unamortized premiums	2,983.00	-	745.86	2,237.14	-
Less: Deferred amount on refundings	(2,947.66)	-	(736.92)	(2,210.74)	-
Total bonds payable	967,959.65	-	295,358.12	672,601.53	307,985.50
Revenue Bonds and Notes:					
Revenue bonds	6,500,000.00	-	275,000.00	6,225,000.00	285,000.00
Less: Unamortized issuance costs	(59,870.00)		(3,326.14)	(56,543.86)	
Total revenue bonds & notes	6,440,130.00	-	271,673.86	6,168,456.14	285,000.00
Capitalized leases	303,582.04	612,806.75	433,747.07	482,641.72	216,311.43
Compensated absences	497,172.33	89,472.72	-	586,645.05	-
Total business-type activities	8,208,844.02	702,279.47	1,000,779.05	7,910,344.44	809,296.93
Long-term liabilities	\$ 13,925,357.14	\$ 2,460,443.31	\$ 1,763,334.35	\$ 14,622,466.10	\$ 1,642,379.36

Governmental activities long-term liabilities at September 30, 2016, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
2010 General Obligation Refunding Bonds	\$ 3,604,164.00	1.00% to 3.00%	\$ 1,165,711.50
2012 General Obligation Bonds	3,200,000.00	2.88%	2,700,000.00
2016 Limited Tax Notes	1,530,000.00	1.39%	1,530,000.00
			<u>\$ 5,395,711.50</u>

Compensated absences are generally liquidated by the General Fund. The funds utilized for the repayment of long-term liabilities for governmental activities are the Debt Service Fund and the General Fund.

Business-type activities long-term liabilities at September 30, 2016, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
2010 General Obligation Refunding Bonds	\$ 2,465,836.00	1.00% to 3.00%	\$ 179,288.50
2012 General Obligation Refunding Bonds	1,485,000.00	.50% to 1.35%	505,000.00
2013 Revenue Bonds	6,500,000.00	3.097%	6,225,000.00
			<u>\$ 6,909,288.50</u>

The annual debt service requirements to be paid on governmental activities long-term debt outstanding at September 30, 2016, are as follows:

September 30,	Principal	Interest	Total
2017	\$ 567,014.50	\$ 129,154.60	\$ 696,169.10
2018	580,015.00	114,979.58	694,994.58
2019	598,682.00	98,639.87	697,321.87
2020	480,000.00	80,243.86	560,243.86
2021	490,000.00	71,864.52	561,864.52
2022-2026	1,170,000.00	235,621.19	1,405,621.19
2027-2031	1,300,000.00	102,735.60	1,402,735.60
2032	210,000.00	3,020.96	213,020.96
	<u>\$ 5,395,711.50</u>	<u>\$ 836,260.18</u>	<u>\$ 6,231,971.68</u>

The annual debt service requirements to be paid on business-type activities long-term debt outstanding at September 30, 2016, are as follows:

September 30,	Principal	Interest	Total
2017	\$ 592,985.50	\$ 198,633.69	\$ 791,619.19
2018	604,985.00	184,831.50	789,816.50
2019	361,318.00	172,174.54	533,492.54
2020	310,000.00	160,889.15	470,889.15
2021	320,000.00	151,133.60	471,133.60
2022-2026	1,755,000.00	598,417.83	2,353,417.83
2027-2031	2,050,000.00	304,435.13	2,354,435.13
2032-2033	915,000.00	28,569.84	943,569.84
	<u>\$ 6,909,288.50</u>	<u>\$ 1,799,085.28</u>	<u>\$ 8,708,373.78</u>

Employee Retirement Systems

Texas Municipal Retirement System (TMRS)

Plan Description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined Benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com. All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefits in one of seven payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions of the City for plan year 2016 were as follows.

Employee deposit rate:	5%
Matching ratio (City to Employee):	2 to 1
Years required for vesting	5 years
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100.0 repeating
Annuity increase (to retirees)	50.0% of CPI

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefits terms:

Inactive employees or beneficiaries currently receiving benefits	84
Inactive employees entitled to but not yet receiving benefits	52
Active employees	<u>158</u>
	294

Contributions

The contribution rates for employees in TMRS are either 5% 6%, or 7% of employees gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution plan rates for the City were 10% and 9.48% in calendar years 2015 and 2016, respectively. The City’s contributions to TMRS for the fiscal year ended September 30, 2016 were \$861,946, and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31st
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	10 Year Smoothed Market; 15% Soft Corridor
Inflation	2.50%
Overall Payroll Growth	3.00%
Salary Increases	3.50% to 10.50%
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
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.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2010 through 2014, and dated December 31, 2014. These assumptions were first used in the December 31, 2014 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	<u>5.00%</u>	8.50%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension's plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	35,371,448	32,911,638	2,459,810
Changes for the year:			
Service cost	971,587	-	971,587
Interest	2,467,242	-	2,467,242
Changes of benefit term	-	-	-
Difference between expected and actual experience	(483,991)	-	(483,991)
Change of assumptions	540,897	-	540,897
Contributions- Employer	-	898,902	(898,902)
Contributions - Employee	-	460,033	(460,033)
Net Investment Income	-	48,567	(48,567)
Benefit payments, including refunds of employee contributions	(1,221,845)	(1,221,845)	-
Administrative expense	-	(29,580)	29,580
Other changes	-	(1,461)	1,461
Net changes	<u>2,273,890</u>	<u>154,616</u>	<u>2,119,274</u>
Balance at 12/31/2015	<u><u>37,645,338</u></u>	<u><u>33,066,254</u></u>	<u><u>4,579,084</u></u>

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

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

	1.0 % Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1.0% Increase in Discount Rate (8.0%)
City's Net Pension Liability:	\$9,601,239	\$4,579,084	\$(414,739)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2016 the City recognized pension expenses of \$898,902.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$449,050	\$ (94,345)
Changes in actuarial assumptions		105,438
Difference between projected and actual investment earnings		
Contributions subsequent to the measurement date		
Total	\$449,050	\$11,903

\$518,718 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$518,718
2017	518,718
2018	518,718
2019	453,405
2020	1,441
Thereafter	-
Total	\$2,011,000

Texas Emergency Services Retirement System

Background and Reporting Entity

The Texas Emergency Services Retirement System (TESRS) is an agency of the State of Texas and its financial records comply with state statutes and regulations. The nine-member Board of Trustees, appointed by the Governor, establishes policy for the administration of the Texas Emergency Services Retirement System.

The (TESRS) was created as a standalone agency by the 83rd Legislature via the passage of SB 220, effective September 1, 2013, to assume the related functions of the abolished Office of the Fire Fighter’s Pension Commissioner. While the agency is new, the System has been in existence since 1977. TESRS, which is under the authority of Title 8 Subtitle H, Chapters 861-865 of the Texas Government Code, provides death and disability benefits to active volunteer fire fighters and first responders, and a pension to members with vested service, as well as to

their survivor/beneficiaries. For financial reporting purposes, the State of Texas is considered the primary reporting government. TESRS' financial statements are included in the State's Comprehensive Annual Financial Report. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations which may be of interest are also available at the same link.

Information that is available in the annual financial report is not repeated in the allocation schedules and related notes.

The preparation of the schedules of participating department allocations and collective pension amounts in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amounts during the reporting period. Actual results could differ from those estimates.

Schedule of Participating Department Allocations

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate.

Participating department contributions for the fiscal year ended August 31, 2016 were used for purposes of preparing the allocation schedule. Adjustments were made in the following circumstances, with the treatment detailed below:

- For newly participating departments, lump sum contributions were eliminated and contributions were annualized
- MTES contributions for legacy departments were eliminated
- Interest on contributions was eliminated
- 13th checks, which are passed directly through to the participants, were eliminated

Schedule of Collective Pension Amounts

TESRS has prepared the Schedule of Collective Pension Amounts. The collective pension expense based on TESRS's fiscal year ended August 31, 2016 is shown in the following table:

Service cost	\$1,694,230
Interest	8,901,986
Projected earnings on pension plan investments	(6,896,675)
Amortization of differences between projected and actual earnings on plan investments	1,327,551
Amortization of changes of assumptions	269,698
Amortizations of differences between expected and actual experience	19,590
Changes in benefit provisions	722,024
Pension plan administrative expense	166,840
	<u>\$6,205,244</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense in future years as follows:

Fiscal Year Ended August 31,	Net Deferred Outflows of Resources
2017	\$1,616,838
2018	1,616,838
2019	2,559,192
2020	387,989

Each participating department will need to calculate two additional types of deferred outflows of resources and deferred inflows of resources, which are participating department specific amounts. These amounts relate to differences between actual contributions made by a participating department and their proportionate share of total contributions calculated based on the allocation percentage.

The participating department’s proportionate share of the collective pension expense for its fiscal year ended between September 1, 2016 and August 31, 2017 is equal to the collective pension expense multiplied by the participating department’s allocation percentage for TERSRS’s fiscal year ended August 31, 2016 as shown in the schedule of participating department allocations. The City’s allocation percentage is 0.672%.

Contributions for fiscal year 2016 were \$30,800.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates in the Texas Municipal League’s General Liability Fund. In addition, the City participates in the Texas Municipal League’s Workers’ Compensation Fund to insure the City for workers’ compensation claims. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The liability for claims and judgments is only reported in the government-wide financial statements because it is not expected to be liquidated with expendable available financial resources. However, none are reported at September 30, 2016.

Contingent Liabilities

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

Closure and Post-closure Care Costs

State and federal laws and regulations require that the City of Fredericksburg place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability must be recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill capacity used to date. Estimated liability for landfill closure and post-closure care costs has a balance of \$2,506,014 as of September 30, 2016, which is based on 81.75% usage of current open cells and 35.01% *usage of the entire landfill*. The landfill is expected to be filled to capacity in 2062. The estimated total current cost of the landfill closure and post-closure care is based on a third party completing the actual work. The amount includes costs for equipment, facilities, and services required to close, monitor, and maintain the landfill as if purchased at September 30, 2016. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

Governmental Accounting Standards Board Statement #54

Beginning with fiscal year ended September 30, 2011, the Statement of Net Assets and Statement of Activities are presented in accordance with Governmental Accounting Standards Board Statement #54.

Prior Period Adjustment

A prior period adjustment to Net Assets was required to record the effects of GASB 68.

Subsequent Events Date Cutoff

The date for subsequent events cutoff is February 24, 2017.



REQUIRED SUPPLEMENTARY INFORMATION

City of Fredericksburg, Texas
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund

	Budgeted Amounts		GAAP Basis Actual	Variance With Final Budget Positive or (Negative)
	Original	Final		
Revenues				
General Property Taxes	\$ 2,879,000.00	\$ 2,879,000.00	\$ 2,731,045.52	\$ (147,954.48)
General Sales and Use Taxes	5,250,000.00	5,250,000.00	5,353,392.29	103,392.29
Hotel Occupancy Taxes	2,630,000.00	2,630,000.00	2,800,167.64	170,167.64
Other Taxes	676,000.00	676,000.00	667,653.41	(8,346.59)
Licenses and Permits	201,800.00	201,800.00	248,059.94	46,259.94
Charges for Services	3,500.00	3,500.00	1,010.29	(2,489.71)
Fines	74,400.00	74,400.00	90,114.65	15,714.65
Pavilion and Camping Fees	391,000.00	391,000.00	403,080.00	12,080.00
Rentals	13,400.00	13,400.00	35,684.32	22,284.32
Intergovernmental Revenue	479,350.00	479,350.00	483,890.28	4,540.28
Grants	43,300.00	43,300.00	49,616.62	6,316.62
Investment Earnings	11,200.00	11,200.00	24,416.43	13,216.43
Other Revenues	390,250.00	390,250.00	388,916.36	(1,333.64)
Total Revenues	\$ 13,043,200.00	\$ 13,043,200.00	\$ 13,277,047.75	\$ 233,846.75
Expenditures				
Municipal Court	\$ 158,800.00	\$ 158,800.00	\$ 153,267.57	\$ 5,532.43
Engineering	193,500.00	193,500.00	200,205.73	(6,705.73)
Administration	977,325.00	1,102,325.00	1,002,989.16	99,335.84
Tourism	2,470,100.00	2,711,662.50	2,667,255.79	44,406.71
Police	4,071,425.00	4,136,425.00	3,898,376.03	238,048.97
Fire	768,200.00	768,200.00	749,286.21	18,913.79
Emergency Management	135,300.00	135,300.00	127,388.58	7,911.42
Streets	1,780,225.00	1,780,225.00	1,601,149.93	179,075.07
Parks	1,379,600.00	1,379,600.00	1,442,537.58	(62,937.58)
Health	181,900.00	181,900.00	180,247.38	1,652.62
Food and Wine Festival	181,550.00	181,550.00	138,381.71	43,168.29
Development Services	442,925.00	442,925.00	458,842.92	(15,917.92)
Debt Service				
Principal	272,400.00	272,400.00	264,207.80	8,192.20
Interest	16,200.00	16,200.00	11,131.17	5,068.83
Capital Outlays	1,326,000.00	2,615,941.50	2,057,599.73	558,341.77
Total Expenditures	14,355,450.00	16,076,954.00	14,952,867.29	1,124,086.71
Excess of Revenues Over (Under) Expenditures	(1,312,250.00)	(3,033,754.00)	(1,675,819.54)	1,357,933.46
Other Financing Sources (Uses)				
Sale of Real and Personal Property	\$ 3,000.00	\$ 3,000.00	\$ 31,387.50	\$ 37,387.50
Transfers in	1,850,750.00	1,850,750.00	1,669,500.00	(181,250.00)
Transfers out	692,150.00	1,116,027.00	1,219,716.47	(103,689.47)
Total Other Financing Sources (Uses)	\$ 1,161,600.00	\$ 737,723.00	\$ 481,171.03	\$ (40,173.03)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (150,650.00)	\$ (2,296,031.00)	\$ (1,194,648.51)	\$ 1,317,760.43
Fund Balances - Beginning	2,796,065.00	250,788.00	7,889,730.02	7,638,942.02
Fund Balances - Ending	\$ 2,645,415.00	\$ (2,045,243.00)	\$ 6,695,081.51	\$ 8,740,324.51

The notes to the Financial Statements are an integral part of this statement.



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