



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

To the Honorable Mayor and
Members of the City of Council
City of Glen Rose, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Glen Rose, Texas (the "City") for the year ended September 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 15, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practice

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note I to the financial statements. As described in Note I to the financial statements, during the year, the City changed its method of accounting for pension liabilities by adopting Governmental Accounting Standards (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and Governmental Accounting Standards (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Accordingly, the cumulative effect of the accounting change as of the beginning of the year has been reported in the Statement of Activities. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

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**Governmental Audit
Quality Center**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

Management's estimate of the accumulated depreciation is based on the straight-line method. We evaluated the key factors and assumptions used to develop the accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible property taxes is based on a historical rate of collection of outstanding property taxes at September 30, 2015. We evaluated the key factors and assumptions used to develop the allowance for uncollectible property taxes in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible municipal court receivables is based on a historical rate of collections. We evaluated the key factors and assumptions used to develop the allowance for uncollectible trade accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatement

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 17, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management’s discussion and analysis, the budgetary comparison information, and pension schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the City Council and management of the City of Glen Rose, Texas, and is not intended to be, and should not be, used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
February 17, 2017

**CITY OF
GLEN ROSE, TEXAS**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2015**

CITY OF GLEN ROSE, TEXAS

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CITY OF GLEN ROSE, TEXAS

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FINANCIAL SECTION

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Glen Rose, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the business-type activities and each major fund, of the City of Glen Rose, Texas (the "City"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Change in Accounting Principle

As discussed in Note I to the financial statements, in 2015 the City adopted new accounting guidance, Governmental Accounting Standards (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and Governmental Accounting Standards (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 and the TMRS pension schedules and budgetary comparison information and on pages 40 through 45 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2017 on our consideration of the City of Glen Rose, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Glen Rose, Texas' internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
February 17, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

As management of the City of Glen Rose, 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 September 30, 2015.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceed its liabilities as of September 30, 2015, by \$19,674,883 (net position). Of this amount, \$8,025,167 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fiscal policies and \$39,990 has been restricted for promoting tourism, and convention and hotel industry.
- The City's total net position increased by \$320,587.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,224,657. Approximately 83% of this total amount \$2,665,775 is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2015, unassigned fund balance for the General Fund was \$2,665,775 or 104% percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves 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.

Government-wide Financial Statements. The government-wide financial statements, which begin on page 11 of this report, 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 position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported 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, public safety, and culture and recreation. The business-type activities of the City include water and sewer operations. The City has one component unit reported. The Glen Rose 4B Economic Development Corporation is a non-profit corporation formed in May 2007 for the purpose of increasing employment opportunities and for public improvement projects.

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.

Government 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 and the Convention and Visitors' Bureau Funds, which are considered to be major funds. A budgetary comparison schedule has been provided for these Funds on pages 38 – 40 to demonstrate compliance with the annual appropriated budget.

Proprietary Funds. Proprietary fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the proprietary funds to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the Municipal Utility Fund which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 18 – 20 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 21 – 39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities by \$19,674,883 as of September 30, 2015.

The largest portion of the City's net position 31% reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF GLEN ROSE, TEXAS

NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Current assets	\$ 3,460,232	\$ 3,728,539	\$ 5,754,536	\$ 5,334,481	\$ 9,214,768	\$ 9,063,020
Capital assets	<u>8,754,363</u>	<u>8,638,887</u>	<u>5,518,743</u>	<u>5,521,535</u>	<u>14,273,106</u>	<u>14,160,422</u>
Total assets	<u>12,214,595</u>	<u>12,367,426</u>	<u>11,273,279</u>	<u>10,856,016</u>	<u>23,487,874</u>	<u>23,223,442</u>
Deferred outflows	<u>98,082</u>	<u>-</u>	<u>27,664</u>	<u>-</u>	<u>125,746</u>	<u>-</u>
Current liabilities	217,325	236,872	292,937	528,200	510,262	765,072
Other liabilities	<u>3,102,114</u>	<u>2,834,624</u>	<u>326,361</u>	<u>269,450</u>	<u>3,428,475</u>	<u>3,104,074</u>
Total liabilities	<u>3,319,439</u>	<u>3,071,496</u>	<u>619,298</u>	<u>797,650</u>	<u>3,938,737</u>	<u>3,869,146</u>
Net position:						
Net investment in capital assets	6,069,363	5,883,887	5,540,363	5,624,120	11,609,726	11,508,007
Restricted	39,990	92,800	-	-	39,990	92,800
Unrestricted	<u>2,883,885</u>	<u>3,319,243</u>	<u>5,141,282</u>	<u>4,434,246</u>	<u>8,025,167</u>	<u>7,753,489</u>
Total net position	<u>\$ 8,993,238</u>	<u>\$ 9,295,930</u>	<u>\$ 10,681,645</u>	<u>\$ 10,058,366</u>	<u>\$ 19,674,883</u>	<u>\$ 19,354,296</u>

As of September 30, 2015, the City is able to report positive balances in three categories of net position, both for the government as a whole, as well as for its separate categories – governmental and business-type activities.

Analysis of the City's Operations – The following table provides a summary of the City's operations for the year ended September 30, 2015. Governmental activities increased the City's net position by \$302,692, accounting for 94% of the total growth in net position. Business-type activities increased the City's net position by \$623,279, accounting for 194% of the total growth in net position.

The City's net position increased by \$320,587 during the current fiscal year. A significant portion of this increase is the result of the City's business-type activities. The majority of this increase was the result of charges for services revenues exceeding expenses for the year. The level of revenues and expenses for the business-type activities is very comparable to the prior year which noted similar growth in net position. The largest increase in revenues for the governmental activities is charges for services which increased over \$100,000 for the current year and can be attributed to Oakdale Park services to citizens. The expenses in the governmental activities increased most significantly under the culture and recreation function. This increase was a result of an increase in cost of Oakdale Park services charged to the function. Additional changes to net position resulted as a change in accounting principles included in the current year. The change in accounting principles was a result of the City implementing GASB Statement No. 68 which requires the City to include a net pension liability. The prior period adjustment was the result of including this net pension liability in the 2015 financial statements.

CITY OF GLEN ROSE, TEXAS

CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 633,921	\$ 533,793	\$ 1,480,718	\$ 1,380,431	\$ 2,114,639	\$ 1,914,224
Operating grants	179,242	174,350	-	-	179,242	-
Capital grants	56,835	57,094	84,865	102,575	141,700	159,669
General revenues:						
Property taxes	617,162	650,744	-	-	617,162	650,744
Sales taxes	728,913	735,830	-	-	617,162	735,830
Franchise taxes	142,144	148,008	-	-	142,144	148,008
Hotel/Motel taxes	275,587	298,059	-	-	275,587	298,059
Miscellaneous	4,348	14,416	-	-	4,348	14,416
Investment earnings	1,455	1,197	2,643	2,526	4,098	3,723
Total revenues	<u>2,639,607</u>	<u>2,613,491</u>	<u>1,568,226</u>	<u>1,485,532</u>	<u>4,207,833</u>	<u>4,099,023</u>
Expenses:						
General government	564,823	562,992	-	-	564,823	562,992
Public safety	345,436	340,579	-	-	345,436	340,579
Highways and streets	496,682	437,093	-	-	496,682	437,093
Community development	-	-	-	-	-	-
Culture and recreation	1,163,975	934,507	-	-	1,163,975	934,507
Interest and other	108,350	109,200	-	-	108,350	109,200
Municipal utilities	-	-	870,758	1,088,132	870,758	1,088,132
Total expenses	<u>2,679,266</u>	<u>2,384,371</u>	<u>870,758</u>	<u>1,088,132</u>	<u>3,550,024</u>	<u>3,472,503</u>
Increases in net position						
before transfers	(39,659)	229,120	697,468	397,400	657,809	626,520
Transfers	-	56,000	-	(56,000)	-	-
Change in net position	(39,659)	285,120	697,468	341,400	657,809	626,520
Net position, beginning	<u>9,295,930</u>	<u>9,139,941</u>	<u>10,058,366</u>	<u>9,757,905</u>	<u>19,354,296</u>	<u>18,897,846</u>
Change in accounting principle	-	(63,693)	-	-	-	(63,693)
Prior period adjustment	(263,033)	(65,438)	(74,189)	(40,939)	(337,222)	(106,377)
Net position, ending	<u>\$ 8,993,238</u>	<u>\$ 9,295,930</u>	<u>\$ 10,681,645</u>	<u>\$ 10,058,366</u>	<u>\$ 19,674,883</u>	<u>\$ 19,354,296</u>

FINANCIAL ANALYSIS OF THE CITY'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 \$3,224,657. Of this balance \$39,990 was restricted for promoting tourism, and convention and hotel industry, \$88,892 is considered non-spendable, and \$430,000 is reported as assigned fund balance because it is appropriated for capital improvements in the subsequent year's budget. The remaining \$2,665,775 is unassigned and available for new spending.

In the General Fund, the City budgeted for a decrease in fund balance of \$432,505. Actual fund balance decreased by \$184,571.

In the Convention and Visitors' Bureau, the City budgeted for a decrease in fund balance of \$80,070. Actual fund balance decreased by \$52,810.

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

Unrestricted net position of the proprietary fund (Municipal Utility Fund) is \$5,141,282. The Municipal Utility Fund had a net position increase in 2015 of \$623,279.

Budgetary Highlights – The City made minor revisions to the original budget. All the revisions were to individual line items within the same departments of the City.

Capital Assets. The City's net investment in capital assets for its governmental and business-type activities as of September 30, 2015, amounts to \$14,273,106 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total additions to the City's investment in capital assets for the current fiscal year were approximately \$603,854.

Major capital asset events during the current fiscal year included the following:

- \$241,128 in sewer plant improvements.
- Street sweeper \$196,985.
- Street improvements \$89,136.

Cost of capital assets, net of accumulated depreciation, as of September 30, 2015 was:

	Governmental Activities 2015	Business-Type Activities 2015	2015 Total	2014 Total
Land	\$ 1,426,697	\$ 67,337	\$ 1,494,034	\$ 1,489,034
Construction in progress	17,676	602,546	620,222	396,806
Building and improvements	1,012,125	38,920	1,051,045	1,004,904
Machinery and equipment	311,878	135,440	447,318	426,391
Improvements	<u>5,985,987</u>	<u>4,674,500</u>	<u>10,660,487</u>	<u>10,843,287</u>
Capital assets, net	<u>\$ 8,754,363</u>	<u>\$ 5,518,743</u>	<u>\$ 14,273,106</u>	<u>\$ 14,160,422</u>

Additional information on the City's capital assets can be found on pages 29 – 30 of this report.

DEBT ADMINISTRATION

The City issued \$3,020,000 in General Obligation Refunding Bonds in August, 2010. Proceeds were used to refund the 2009 Combination Tax & Revenue Certificates of Obligation Bonds and pay issuance cost. During fiscal year 2013, the City issued \$370,000 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2013. Proceeds were used to provide funds for the planning, acquisition and design costs related to wastewater system improvements. As of year-end, the outstanding balance is \$2,905,000.

Additional information on the City's long-term debt can be found on pages 31 – 32.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the fiscal year 2015-2016 budget, General Fund revenues and transfers in are budgeted to increase by 11% from the fiscal year 2014-2015 budget due to an increase in transfers from reserve funds. Expenditures are budgeted to increase 10%, the majority of which is for capital expenditures.

The property tax revenue rate will remain at \$.384074 per \$100 valuation for the 2015-2016 fiscal year.

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 City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City Secretary at P.O. Box 1949, Glen Rose, Texas, 76043, call (254) 897-2272.

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BASIC FINANCIAL STATEMENTS

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CITY OF GLEN ROSE, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	Primary Government			Component Unit
	Governmental	Business-type		Economic
	Activities	Activities	Total	Development Corp.
ASSETS				
Pooled cash and cash equivalents	\$ 1,072,046	\$ 1,360,672	\$ 2,432,718	\$ -
Non-pooled cash and cash equivalents	1,415,586	4,455,128	5,870,714	325,290
Sales and use taxes receivable	132,396	-	132,396	43,307
Hotel occupancy taxes receivable	69,742	-	69,742	-
Property taxes receivable	41,618	-	41,618	-
Accounts receivable	4,365	193,956	198,321	-
Prepaid expense	8,892	-	8,892	-
Due from other governments	3,803	-	3,803	-
Due from component unit	-	250	250	-
Due from primary government	-	-	-	50,884
Internal balances	626,615	(626,615)	-	-
Note receivable	80,000	-	80,000	-
Court fines receivable	5,169	-	5,169	-
Restricted assets:				
Pooled cash and cash equivalents	-	371,145	371,145	-
Land	1,426,697	67,337	1,494,034	-
Construction in progress	17,676	602,546	620,222	-
Buildings	1,395,878	57,943	1,453,821	-
Improvements other than buildings	7,153,212	8,687,576	15,840,788	-
Machinery and equipment	952,783	631,662	1,584,445	-
Accumulated depreciation	(2,191,883)	(4,528,321)	(6,720,204)	-
Total assets	<u>12,214,595</u>	<u>11,273,279</u>	<u>23,487,874</u>	<u>419,481</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources pensions	<u>98,082</u>	<u>27,664</u>	<u>125,746</u>	<u>-</u>
Total deferred outflows of resources	<u>98,082</u>	<u>27,664</u>	<u>125,746</u>	<u>-</u>
LIABILITIES				
Accounts payable	60,062	36,548	96,610	-
Accrued payroll	15,882	-	15,882	-
Due to component unit	50,884	-	50,884	-
Due to primary government	-	-	-	250
Customer deposits	63,959	124,304	188,263	-
Accrued interest	26,538	2,560	29,098	-
Unearned revenue	-	129,525	129,525	-
Noncurrent liabilities:				
Due within one year	116,642	31,872	148,514	-
Due in more than one year	<u>2,985,472</u>	<u>294,489</u>	<u>3,279,961</u>	<u>-</u>
Total liabilities	<u>3,319,439</u>	<u>619,298</u>	<u>3,938,737</u>	<u>250</u>
NET POSITION				
Net investment in capital assets	6,069,363	5,540,363	11,609,726	-
Restricted for:				
Promoting tourism, and convention and hotel industry	39,990	-	39,990	-
Economic development	-	-	-	419,231
Unrestricted	<u>2,883,885</u>	<u>5,141,282</u>	<u>8,025,167</u>	<u>-</u>
Total net position	<u>\$ 8,993,238</u>	<u>\$ 10,681,645</u>	<u>\$ 19,674,883</u>	<u>\$ 419,231</u>

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

CITY OF GLEN ROSE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 564,823	\$ 37,583	\$ 178,700	\$ -
Public safety	345,436	56,625	-	-
Highway and streets	496,682	-	-	56,835
Community development	-	539,713	542	-
Culture and recreation	1,163,975	-	-	-
Interest and other	108,350	-	-	-
Total governmental activities	2,679,266	633,921	179,242	56,835
Business-type activities:				
Municipal utility	870,758	1,480,718	-	84,865
Total business-type activities	870,758	1,480,718	-	84,865
Total primary government	\$ 3,550,024	\$ 2,114,639	\$ 179,242	\$ 141,700
Component unit:				
Economic Development Corporation	194,628	-	-	-
Total component unit	\$ 194,628	\$ -	\$ -	\$ -

General revenues:

Taxes:

Property, levied for general purposes

Franchise

Sales

Hotel/Motel

Investment earnings

Miscellaneous

Total general revenues

Change in net position

Net position, beginning

Prior period adjustment

Net position, ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Corp.
\$ (348,540)	\$ -	\$ (348,540)	\$ -
(288,811)	-	(288,811)	-
(439,847)	-	(439,847)	-
540,255	-	540,255	-
(1,163,975)	-	(1,163,975)	-
(108,350)	-	(108,350)	-
(1,809,268)	-	(1,809,268)	-
-	694,825	694,825	84,865
-	694,825	694,825	84,865
(1,809,268)	694,825	(1,114,443)	84,865
			(194,628)
			(194,628)
617,162	-	617,162	-
142,144	-	142,144	-
728,913	-	728,913	239,832
275,587	-	275,587	-
1,455	2,643	4,098	154
4,348	-	4,348	-
1,769,609	2,643	1,772,252	239,986
(39,659)	697,468	657,809	45,358
9,295,930	10,058,366	19,354,296	373,873
(263,033)	(74,189)	(337,222)	-
\$ 8,993,238	\$ 10,681,645	\$ 19,674,883	\$ 419,231

CITY OF GLEN ROSE, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS SEPTEMBER 30, 2015

	General	Convention and Visitors' Bureau	Total Governmental Funds
ASSETS			
Pooled cash and cash equivalents	\$ 1,069,132	\$ 2,914	\$ 1,072,046
Non-pooled cash and cash equivalents	1,346,204	69,382	1,415,586
Sales and use taxes receivable	132,396	-	132,396
Hotel occupancy taxes receivable	-	69,742	69,742
Property taxes receivable	41,618	-	41,618
Accounts receivable	4,365	-	4,365
Notes receivable	80,000	-	80,000
Court fines receivable	5,169	-	5,169
Prepaid items	8,892	-	8,892
Due from other governments	3,803	-	3,803
Due from other funds	716,100	-	716,100
Total assets	<u>\$ 3,407,679</u>	<u>\$ 142,038</u>	<u>\$ 3,549,717</u>
LIABILITIES			
Accounts payable	\$ 48,699	\$ 11,363	\$ 60,062
Accrued payroll	14,682	1,200	15,882
Due to other funds	-	89,485	89,485
Due to component unit	50,884	-	50,884
Customer deposits	63,959	-	63,959
Total liabilities	<u>178,224</u>	<u>102,048</u>	<u>280,272</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	39,618	-	39,618
Unavailable - court fines	5,170	-	5,170
Total deferred inflows of resources	<u>44,788</u>	<u>-</u>	<u>44,788</u>
FUND BALANCES			
Nonspendable:			
Note receivable	80,000	-	80,000
Prepaid items	8,892	-	8,892
Restricted for promoting tourism, and convention and hotel industry	-	39,990	39,990
Assigned for appropriation in subsequent year's budget	430,000	-	430,000
Unassigned	2,665,775	-	2,665,775
Total fund balances	<u>3,184,667</u>	<u>39,990</u>	<u>3,224,657</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,407,679</u>	<u>\$ 142,038</u>	<u>\$ 3,549,717</u>

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

CITY OF GLEN ROSE, TEXAS

**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

SEPTEMBER 30, 2015

Amounts reported of governmental activities in the statement of net position are different because:

Total fund balances - total governmental funds	\$ 3,224,657
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,754,363
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.	44,788
Long-term liabilities, including bonds payable, net pension liability and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,030,570)</u>
Net position of governmental activities	\$ <u>8,993,238</u>

CITY OF GLEN ROSE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>General</u>	<u>Convention and Visitors' Bureau</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
Property	\$ 628,891	\$ -	\$ 628,891
Franchise	142,144	-	142,144
Sales	728,913	-	728,913
Occupancy	-	275,587	275,587
Licenses and permits	28,471	-	28,471
Fines and forfeitures	56,625	-	56,625
Charges for services	536,955	-	536,955
Intergovernmental	235,535	-	235,535
Investment income	1,425	30	1,455
Miscellaneous	16,760	-	16,760
Total revenues	<u>2,375,719</u>	<u>275,617</u>	<u>2,651,336</u>
EXPENDITURES			
Current:			
General government	540,154	-	540,154
Public safety	338,911	-	338,911
Highways and streets	339,647	-	339,647
Culture and recreation	650,993	328,427	979,420
Capital outlay	511,885	-	511,885
Debt service:			
Principal	70,000	-	70,000
Interest and fiscal charges	108,700	-	108,700
Total expenditures	<u>2,560,290</u>	<u>328,427</u>	<u>2,888,717</u>
NET CHANGE IN FUND BALANCE	<u>(184,571)</u>	<u>(52,810)</u>	<u>(237,381)</u>
FUND BALANCES, BEGINNING	<u>3,369,238</u>	<u>92,800</u>	<u>3,462,038</u>
FUND BALANCES, ENDING	<u>\$ 3,184,667</u>	<u>\$ 39,990</u>	<u>\$ 3,224,657</u>

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

CITY OF GLEN ROSE, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Amounts reported of governmental activities in the statement of net position are different because:

Total net change in fund balances - total governmental funds	\$(237,381)
--	--------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.	115,476
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(11,729)
--	-----------

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	70,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>23,975</u>
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Change in net position of governmental activities	<u>\$(39,659)</u>
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CITY OF GLEN ROSE, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2015

	<u>Enterprise Fund</u> <u>Municipal</u> <u>Utility</u>
ASSETS	
Current assets:	
Pooled cash and cash equivalents	\$ 1,360,672
Non-pooled cash and cash equivalents	4,455,128
Due from component unit	250
Accounts receivable, net	193,956
Restricted assets:	
Pooled cash and cash equivalents	371,145
Non-current assets:	
Land	67,337
Buildings	57,943
Improvements and other buildings	8,687,576
Machinery and equipment	631,662
Construction in progress	602,546
Accumulated depreciation	(4,528,321)
Total assets	<u>11,899,894</u>
DEFERRED OUTFLOW OF RESOURCES	
Deferred outflow related to pensions	<u>27,664</u>
Total deferred outflow of resources	<u>27,664</u>
LIABILITIES	
Current liabilities:	
Accounts payable	36,548
Due to other funds	626,615
Unearned revenue	129,525
Accrued interest	2,560
Customer deposits	124,304
Certificates of obligation	30,000
Compensated absences payable	1,872
Noncurrent liabilities:	
Certificates of obligation	190,000
Compensated absences payable	5,616
Net pension liability	<u>98,873</u>
Total liabilities	<u>1,245,913</u>
NET POSITION	
Net investment in capital assets	5,540,363
Unrestricted	<u>5,141,282</u>
Total net position	<u>\$ 10,681,645</u>

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

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CITY OF GLEN ROSE, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Enterprise Fund</u> <u>Municipal</u> <u>Utility</u>
OPERATING REVENUES	
Charges for services	\$ 1,433,583
Miscellaneous	<u>47,135</u>
Total operating revenues	<u>1,480,718</u>
OPERATING EXPENSES	
Personnel services	275,596
Purchased water	153,637
Supplies and maintenance	149,107
Heat, light, and power	31,493
Miscellaneous	11,725
Depreciation	<u>243,920</u>
Total operating expenses	<u>865,478</u>
Operating income	<u>615,240</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	2,643
Interest expense and fiscal charges	<u>(5,280)</u>
Total nonoperating revenues (expenses)	<u>(2,637)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>612,603</u>
CAPITAL CONTRIBUTIONS	<u>84,865</u>
CHANGE IN NET POSITION	697,468
TOTAL NET POSITION, BEGINNING	<u>10,058,366</u>
PRIOR PERIOD ADJUSTMENT	<u>(74,189)</u>
TOTAL NET POSITION, ENDING	<u>\$ 10,681,645</u>

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

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

	<u>Enterprise Fund</u> <u>Municipal</u> <u>Utility</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,477,951
Cash payments to employees for services	(295,538)
Cash payments to suppliers for goods and services	(383,918)
Net cash provided (used) by operating activities	<u>798,495</u>
CASH FLOWS FROM NONCAPITAL RELATED FINANCING ACTIVITIES	
Cash paid to other funds	(217,325)
Net cash provided (used) by noncapital related financing activities	<u>(217,325)</u>
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(339,718)
Interest paid on long-term debt	(5,280)
Principal paid on long-term debt	(25,000)
Net cash provided (used) by financing activities	<u>(369,998)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>2,643</u>
Net cash provided (used) by financing activities	<u>2,643</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	213,815
CASH AND CASH EQUIVALENTS, BEGINNING	<u>5,973,130</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 6,186,945</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 615,240
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	243,920
Increase (decrease) in accounts receivable	(20,027)
Increase (decrease) in deferred outflows	(27,664)
(Increase) decrease in compensated absences	(16,962)
(Increase) decrease in payables and accrued liabilities	(37,956)
(Increase) decrease in customer deposits	17,260
(Increase) decrease in net pension liability	<u>24,684</u>
Net cash provided (used) by operating activities	<u>\$ 798,495</u>

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

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CITY OF GLEN ROSE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from its legally separate *component unit* for which the primary government is financially accountable.

B. Financial Reporting Entity

The City operates as a Type A General Law Municipality under the laws of the State of Texas. The entity is governed by an elected mayor and five-member governing council. The Mayor and Councilmembers are elected for staggered three-year terms. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

The Glen Rose 4B Economic Development Corporation is a non-profit corporation formed in May 2007 for the purpose of increasing employment opportunities and or public improvement projects. The corporation operates under the authority of Vernon's Civil Statutes, Article 5190.6, Section 4B. Since the City Council appoints its Board of Directors, approves its budgets, and exercises final authority over its operations, the Glen Rose 4B Economic Development Corporation is considered to be a part of the City's reporting entity and presented in the accompanying basic financials statements as a discretely presented component unit.

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

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, 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 are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) operating or capital 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*.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary financial statements also report using this same focus and basis of accounting although internal activity is not eliminated. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, property taxes, franchise taxes, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the funds. Principal operating revenues for proprietary funds are charged to customers for sales or services. Principal operating expenses are the costs of providing goods or services and included administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

D. Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported in separate columns.

The City reports the following major funds:

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

The *Convention and Visitors' Bureau Fund* is used to account for the revenues of the hotel/motel taxes received by the City. These funds are restricted for expenditures related to promoting tourism and convention and visitors bureau.

The *Municipal Utility Fund* is used to account for the activity of the City's water and wastewater services.

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

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

Deposits and Investments

Cash includes not only currency on hand, but also demand deposits with banks or other financial institutions. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

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). 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 receivables are shown net of an allowance for uncollectibles.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. City property tax revenue is recognized when levied. An allowance is established for delinquent taxes to the extent that their collectability is improbable.

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The assessment ratio of the City is 100 percent of market value.

Since 1980, the appraisal of property within the City has been the responsibility of the countywide appraisal district. The appraisal district is required under the property tax code to assess all property within the appraisal district on the basis of 100 percent of its appraised value and is prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed at least every five years. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (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.

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

<u>Assets</u>	<u>Years</u>
Buildings	20
Vehicles	7
Improvements	10 - 20
Equipment	5 - 7
Infrastructure	20

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- **Deferred charges on refundings** – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- **Pension contributions after measurement date** – These contributions are deferred and recognized in the following fiscal year.
- **Difference in projected and actual earnings on pension assets** – This difference is deferred and amortized over a closed five year period.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item that qualifies for reporting in this category. The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned, but unused, vacation, comp time and sick leave. Upon separation from City employment, a regular employee who has completed at least one year of continuous employment will be paid for accrued and unused vacation leave and comp time up to the limit of his or her maximum allowable accumulation. No more than 192 hours for employees with less than 15 years' employment with the City, and 240 hours for employees with more than 15 years can be carried over to the next year. Comp time is limited to 240 hours. On the employee's anniversary date, any vacation leave balance in excess of the appropriate maximum is reduced to the maximum without compensation. Accumulated unpaid vacation and comp time amounts are accrued as a current liability in the period they are earned in proprietary funds (using the accrual basis of accounting) and the government-wide financial statements. In governmental funds, the cost of vacation and comp pay is recognized when payments are due. In the event of termination or retirement, sick pay is not paid. Therefore, no accrued liabilities for sick pay are recorded.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes to specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

Use of Fund Balance and Net Position

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance and net assets are available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Position

Net position represents the difference between assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources. Net position invested in capital assets 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 position is 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.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Prior Period Adjustment

The GASB has issued Statement No. 68, "*Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*," which became effective for fiscal year 2015. This statement changes the focus of pension accounting for employers from whether they are responsibly funding their plan over time to a point-in-time liability that is reflected in the employer's financial statements for any actuarially unfunded portion of pension benefits earned to date.

The implementation of Statement No. 68 resulted restatement of beginning net position for the recording of the beginning net pension liability in the amount of \$333,538 and \$94,075, and the beginning deferred outflow for contributions made after the measurement date in the amount of \$70,505 and \$19,886 for the governmental activities and business-type activities, respectively. These items cumulatively resulted in a restatement of governmental activities and business-type activities net position in the amount of \$263,033 and \$74,189, respectively.

2. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
External investment pools:			
TexPool	\$ <u>2,432,693</u>	40	AAAm
Total carrying value	\$ <u>2,432,693</u>		

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maximum allowable stated maturity of any individual investment not to exceed two years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act, and investing operating funds primarily in short-term securities or similar government investment pools.

Credit Risk. The City's investment policy limits investments in external investment pools rated as to investment quality not less than AAA by a nationally recognized investment rating firm.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized to 102 percent by collateral securities. At year-end, market values of the City's pledged securities and FDIC insurance exceeded bank balances.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safe keep securities at financial institutions, avoiding physical possession. TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the Office of the Comptroller of Public Accounts for review.

Each of the external investment pools (the "Pools") operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Pools use amortized cost rather than fair value to report net position to compute share prices. Accordingly, the fair value of the position in the Pools is the same as the value of Pool shares.

B. Receivables

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

	<u>General</u>	<u>Convention Visitors' Bureau</u>	<u>Municipal Utility</u>	<u>Total</u>
Receivables:				
Taxes	\$ 230,596	\$ 69,742	\$ 238,143	\$ 538,481
Accounts	4,365	-	-	4,365
Municipal court	51,688	-	-	51,688
Gross receivables	286,649	69,742	238,143	594,534
Less: allowance for uncollectibles	(103,101)	-	(44,187)	(147,288)
Net total receivables	<u>\$ 183,548</u>	<u>\$ 69,742</u>	<u>\$ 193,956</u>	<u>\$ 447,246</u>

C. Capital Assets

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

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,421,697	\$ 5,000	\$ -	\$ 1,426,697
Construction in progress	35,388	18,155	(35,867)	17,676
Total capital assets not being depreciated	<u>1,457,085</u>	<u>23,155</u>	<u>(35,867)</u>	<u>1,444,373</u>
Capital assets, being depreciated:				
Buildings and improvements	1,314,511	81,367	-	1,395,878
Improvements other than buildings	7,064,076	89,136	-	7,153,212
Machinery and equipment	807,631	204,935	(59,783)	952,783
Total capital assets being depreciated	<u>9,186,218</u>	<u>375,438</u>	<u>(59,783)</u>	<u>9,501,873</u>
Less accumulated depreciation:				
Buildings and improvements	349,976	33,777	-	383,753
Improvements other than buildings	1,107,879	59,346	-	1,167,225
Machinery and equipment	546,561	133,203	(38,859)	640,905
Total accumulated depreciation	<u>2,004,416</u>	<u>226,326</u>	<u>(38,859)</u>	<u>2,191,883</u>
Total capital assets, being depreciated, net	<u>7,181,802</u>	<u>149,112</u>	<u>(20,924)</u>	<u>7,309,990</u>
Governmental activities capital assets, net	<u>\$ 8,638,887</u>	<u>\$ 172,267</u>	<u>\$ (56,791)</u>	<u>\$ 8,754,363</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 67,337	\$ -	\$ -	\$ 67,337
Construction in progress	<u>361,418</u>	<u>241,128</u>	<u>-</u>	<u>602,546</u>
Total capital assets not being depreciated	<u>428,755</u>	<u>241,128</u>	<u>-</u>	<u>669,883</u>
Capital assets, being depreciated:				
Buildings and improvements	57,943	-	-	57,943
Improvements other than buildings	8,687,576	-	-	8,687,576
Machinery and equipment	<u>631,662</u>	<u>-</u>	<u>-</u>	<u>631,662</u>
Total capital assets being depreciated	<u>9,377,181</u>	<u>-</u>	<u>-</u>	<u>9,377,181</u>
Less accumulated depreciation:				
Buildings and improvements	17,574	1,449	-	19,023
Improvements other than buildings	3,800,484	212,592	-	4,013,076
Machinery and equipment	<u>466,343</u>	<u>29,879</u>	<u>-</u>	<u>496,222</u>
Total accumulated depreciation	<u>4,284,401</u>	<u>243,920</u>	<u>-</u>	<u>4,528,321</u>
Total capital assets, being depreciated, net	<u>5,092,780</u>	<u>(243,920)</u>	<u>-</u>	<u>4,848,860</u>
Business-type activities capital assets, net	<u>\$ 5,521,535</u>	<u>\$ (2,792)</u>	<u>\$ -</u>	<u>\$ 5,518,743</u>

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

Governmental activities:	
General government	\$ 13,317
Public safety	9,530
Highways and streets	160,040
Culture and recreation	<u>43,439</u>
Total depreciation expense - governmental activities	<u>\$ 226,326</u>

D. Interfund Receivables and Payables

The composition of interfund balances as of September 30, 2015, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Municipal Utility	\$ 626,615
General	Convention & Visitors' Bureau	<u>89,485</u>
		<u>\$ 716,100</u>

The outstanding balances between funds result mainly from the lag time between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Balances due to and from component unit and primary government at September 30, 2015 consisted of the following:

Receivable	Payable	Amount
Economic Development Corp.	General	\$ 50,884
Municipal Utility	Economic Development Corp.	<u>250</u>
		<u>\$ 51,134</u>

E. Long-term Debt

Combination Tax and Surplus Revenue Certificates of Obligation

The City issued \$370,000 of Combination Tax and Surplus Revenue Certificates of Obligation, Series 2012 to provide funds for the planning, acquisition and design costs related to wastewater system improvements. Additionally, the Texas Water Development Board (TWDB) provided financial assistance of \$370,000 and purchased the Certificates of Obligation, Series 2012 with an Economically Distressed Areas Program (EDAP) loan. These certificates of obligation are reported in the proprietary funds since these COs are expected to be repaid from proprietary fund revenue.

These certificates of obligation are direct obligations and pledge the full faith and credit of the City. These certificates of obligation generally are issued as 10-year certificates of obligation with equal amounts of principal maturing each year. The interest rates range from 0.27% to 2.82%

Annual debt service requirements to maturity for the revenue certificates of obligation are as follows:

Year Ending September 30,	Business-type Activities	
	Principal	Interest
2016	\$ 30,000	\$ 4,772
2017	30,000	4,382
2018	30,000	3,914
2019	30,000	3,335
2020	30,000	2,666
2021-2022	<u>70,000</u>	<u>2,912</u>
Total	<u>\$ 220,000</u>	<u>\$ 21,981</u>

General Obligation Bonds

The City issued \$3,020,000 of General Obligation Refunding Bonds, Series 2010 to refund previously issued Certificates of Obligation. As of year-end there are no bonds or certificates of obligation considered defeased and outstanding. These bonds are reported as a governmental activity since these bonds are expected to be repaid from tax revenue.

These bonds are direct obligations and pledge the full faith and credit of the City. The interest rates range from 2.00% to 4.25%.

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

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2016	\$ 100,000	\$ 106,150
2017	105,000	103,150
2018	105,000	100,000
2019	110,000	96,850
2020	115,000	92,450
2021-2025	635,000	389,850
2026-2030	775,000	252,250
2031-2034	<u>740,000</u>	<u>80,113</u>
Total	<u>\$ 2,685,000</u>	<u>\$ 1,220,813</u>

Changes in Long-term Liabilities

The following is a summary of transactions affecting long-term liabilities for the year ended September 30, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Government activities					
General obligation bonds	\$ 2,755,000	\$ -	\$ 70,000	\$ 2,685,000	\$ 100,000
Compensated absences	79,624	9,308	22,366	66,566	16,642
Net pension liability	<u>333,538</u>	<u>87,384</u>	<u>70,374</u>	<u>350,548</u>	<u>-</u>
Governmental activity					
Long-term liabilities	<u>\$ 3,168,162</u>	<u>\$ 96,692</u>	<u>\$ 162,740</u>	<u>\$ 3,102,114</u>	<u>\$ 116,642</u>
Business-type activities					
Revenue COs	\$ 245,000	\$ -	\$ 25,000	\$ 220,000	\$ 30,000
Compensated absences	24,450	1,559	18,521	7,488	1,872
Net pension liability	<u>94,075</u>	<u>24,647</u>	<u>19,849</u>	<u>98,873</u>	<u>-</u>
Business-type activity					
Long-term liabilities	<u>\$ 363,525</u>	<u>\$ 26,206</u>	<u>\$ 63,370</u>	<u>\$ 326,361</u>	<u>\$ 31,872</u>

Compensated absences and net pension liability are generally liquidated by the General Fund and Municipal Utility Fund.

F. Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses. Settled claims did not exceed the commercial coverage during the last three fiscal years.

G. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

H. Defined Benefit Pension Policies and Supplemental Death Benefits

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

All eligible employees of the City are required to participate in TMRS.

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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 City has approved an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, City provides on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	7.00%
Matching ratio (City to employee)	2 to 1
Years required for vesting	10
Service retirement eligibility	20 years to any age, 10 years at age 60 and above
Updated service credit	100% repeating
Annuity increase to retirees	70% of CPI, repeating

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>22</u>
	<u>46</u>

Contributions. The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions 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 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.42% and 13.92% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$125,578, and were equal to the required contributions.

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

Actuarial assumptions:

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

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment 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 target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates return for each major assets 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	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 3,006,599	\$ 2,578,986	\$ 427,613
Changes for the year:			
Service cost	133,111	-	133,111
Interest	209,657	-	209,657
Difference between expected and actual experience	3,795	-	3,795
Contributions - employer	-	117,433	(117,433)
Contributions - employee	-	61,440	(61,440)
Net investment income	-	147,549	(147,549)
Benefit payments, including refunds of employee contributions	(156,120)	(156,120)	-
Administrative expense	-	(1,540)	1,540
Other changes	-	(127)	127
Net changes	190,443	168,635	21,808
Balance at 12/31/2014	\$ 3,197,042	\$ 2,747,621	\$ 449,421

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%) of 1-percentage-higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension liability	\$ 902,792	\$ 449,421	\$ 80,401

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Internet at www.tmrs.org.

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

For the year ended September 30, 2015, the City recognized pension expense of \$109,909. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Differences between expected and actual economic experience	\$ 2,948
Difference between projected and actual investment earnings	26,384
Contributions subsequent to the measurement date	<u>96,414</u>
Total	<u>\$ 125,746</u>

\$96,414 reported as deferred outflows of resources related to pension 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 expenses as follows:

<u>Year Ended September 30,</u>	
2016	\$ 7,443
2017	7,443
2018	7,443
2019	7,003

Subsequent event

Pursuant to TMRS policy of conducting experience studies every four years, the TMRS Board at their July 31, 2015 meeting determined that they would be changing certain actuarial assumptions including reducing the long term expected rate of return from the current 7% to 6.75% and changing the inflation assumption from 3% to 2.5%. Reduction of expected investment return and related discount rate will increase projected pension liabilities. Reducing the inflation assumption reduces liabilities as future annuity levels and future cost of living adjustments are not projected to be as large as originally projected. While the actual impact on the City's valuation for December 31, 2015 is not known the City does expect some downward pressure on its funded status and upward pressure on its 2017 actuarially determined contribution (ADC) due to this change.

Supplemental Death Benefits Fund

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

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

The City's contributions to the TMRS SDBF for the years ended 2015, 2014, and 2013, were \$2,726, \$2,804, and \$977, respectively, which equaled the required contributions each year.

I. Water Contract

The City entered into a contract with the Somervell County Water District (District) on March 30, 2009 for the purchase of all its treated water used by the city for both its own use within the City's service area and for the retail distribution to all of its customers within such area as served by the City's water distribution system up to, but not to exceed 225 million gallons in any calendar year. As part of the agreement, the City will terminate the use of its groundwater supply, accepting only such supplies required by the city which exceed the maximum deliveries or during emergency conditions when the District is unable to deliver the water to the City in the quantity or of the quality required by the agreement. The City began receiving treated water on October 20, 2011 which is the effective date of the contract.

Terms of the contract call for the City to pay the District \$1.75 per 1,000 gallons of treated water delivered to the city. During the initial period of the contract, two years, the City shall be deemed to have taken and used a minimum annual average daily amount of 300,000 gallons, for which they will be charged \$191,625 annually or \$15,968.75 prorated per month. Such charge shall be considered the City's minimum annual payment. Monthly volumes delivered in excess of such minimum shall be additionally billed to the City at the \$1.75 rate.

After two years, the rate charged to the City shall be adjusted by the District to reflect any changes in their projected cost. However, the rate shall not be increased or decreased by more than 15% of the preceding year's rate. As of September 30, 2015, this rate remained unchanged.

I. Investment in Land of the Dinosaurs

On February 8, 2010, the City Council of the City of Glen Rose approved the request of the Glen Rose 4B Economic Development Corporation to invest \$80,000 in the Land of the Dinosaurs, L.L.C. production. In exchange for this investment, Land of the Dinosaurs, L.L.C. agreed to give ownership of 8.74% to the City. The fair value of this investment is considered to be nominal and has not been recorded in the financial statements.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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CITY OF GLEN ROSE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 635,000	\$ 635,000	\$ 628,891	\$(6,109)
Franchise taxes	150,000	150,000	142,144	(7,856)
Sales and use taxes	657,500	657,500	728,913	71,413
Licenses and permits	9,896	9,896	28,471	18,575
Fines and forfeitures	47,950	47,950	56,625	8,675
Charges for services	468,750	468,750	536,955	68,205
Intergovernmental	57,000	57,000	235,535	178,535
Investment earnings	2,000	2,000	1,425	(575)
Miscellaneous	<u>60,000</u>	<u>60,000</u>	<u>16,760</u>	<u>(43,240)</u>
Total revenue	<u>2,088,096</u>	<u>2,088,096</u>	<u>2,375,719</u>	<u>287,623</u>
EXPENDITURES				
General government:				
Administrative department	<u>526,224</u>	<u>526,224</u>	<u>540,154</u>	<u>(13,930)</u>
Total general government	<u>526,224</u>	<u>526,224</u>	<u>540,154</u>	<u>(13,930)</u>
Public safety:				
Inspection/ordinance department	95,759	95,759	95,666	93
Animal control department	140,692	140,692	110,517	30,175
Judicial department	20,643	20,643	42,077	(21,434)
Police department	<u>131,377</u>	<u>131,377</u>	<u>90,651</u>	<u>40,726</u>
Total public safety	<u>388,471</u>	<u>388,471</u>	<u>338,911</u>	<u>49,560</u>
Highways and streets:				
Street and park department	<u>307,256</u>	<u>307,256</u>	<u>339,647</u>	<u>(32,391)</u>
Total highways and streets	<u>307,256</u>	<u>307,256</u>	<u>339,647</u>	<u>(32,391)</u>

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with Final</u>
				<u>Budget</u>
EXPENDITURES				
Culture and recreation:				
Preservation department	\$ -	\$ -	\$ 8,241	\$(8,241)
Oakdale Park	<u>653,949</u>	<u>653,949</u>	<u>642,752</u>	<u>11,197</u>
Total culture and recreation	<u>653,949</u>	<u>653,949</u>	<u>650,993</u>	<u>2,956</u>
Debt service:				
Principal retirement	-	-	70,000	(70,000)
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>108,700</u>	<u>(108,700)</u>
Total debt service	<u>-</u>	<u>-</u>	<u>178,700</u>	<u>(178,700)</u>
Capital outlay	<u>986,838</u>	<u>986,838</u>	<u>511,885</u>	<u>474,953</u>
Total expenditures	<u>2,862,738</u>	<u>2,862,738</u>	<u>2,560,290</u>	<u>302,448</u>
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES	<u>(774,642)</u>	<u>(774,642)</u>	<u>(184,571)</u>	<u>590,071</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>342,137</u>	<u>342,137</u>	<u>-</u>	<u>(342,137)</u>
Total other financing sources (uses)	<u>342,137</u>	<u>342,137</u>	<u>-</u>	<u>(342,137)</u>
NET CHANGE IN FUND BALANCE	<u>(432,505)</u>	<u>(432,505)</u>	<u>(184,571)</u>	<u>247,934</u>
FUND BALANCE, BEGINNING	<u>3,369,238</u>	<u>3,369,238</u>	<u>3,369,238</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 2,936,733</u>	<u>\$ 2,936,733</u>	<u>\$ 3,184,667</u>	<u>\$ 247,934</u>

CITY OF GLEN ROSE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CONVENTION AND VISITORS' BUREAU
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Occupancy taxes	\$ 280,000	\$ 280,000	\$ 275,587	\$(4,413)
Investment earnings	<u>125</u>	<u>125</u>	<u>30</u>	<u>(95)</u>
Total revenue	<u>280,125</u>	<u>280,125</u>	<u>275,617</u>	<u>(4,508)</u>
EXPENDITURES				
Culture and recreation:				
Convention and visitors bureau	<u>360,195</u>	<u>360,195</u>	<u>328,427</u>	<u>31,768</u>
Total expenditures	<u>360,195</u>	<u>360,195</u>	<u>328,427</u>	<u>31,768</u>
NET CHANGE IN FUND BALANCE	(80,070)	(80,070)	(52,810)	27,260
FUND BALANCE, BEGINNING	<u>92,800</u>	<u>92,800</u>	<u>92,800</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 12,730</u>	<u>\$ 12,730</u>	<u>\$ 39,990</u>	<u>\$ 27,260</u>

CITY OF GLEN ROSE, TEXAS

NOTES TO BUDGETARY COMPARISON INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2015

BUDGETS AND BUDGETARY ACCOUNTING

Annual appropriated budgets are adopted for the General Fund and the Convention and Visitors' Bureau Fund on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

Expenditures may not legally exceed budgeted appropriations at the department level. Expenditure requests, which would require an increase in total budgeted appropriations, must be approved by City Council through a formal budget amendment. At any time in the fiscal year, the Council may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public health, safety, or welfare. The Council has the power to transfer any unencumbered funds allocated by the budget from one activity, function, or department, to another activity, function, or department, to re-estimate revenues and expenditures, and to amend the budget.

Management has the authority to transfer available funds allocated by the budget within the same department.

COMPLIANCE SECTION

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Glen Rose, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, the business-type activities and each major fund of the City of Glen Rose, Texas (the "City"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Glen Rose, Texas' basic financial statements, and have issued our report thereon dated February 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. These deficiencies are identified as items 2015-001, 2015-002, and 2015-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Glen Rose, Texas' Response to Findings

City of Glen Rose, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Glen Rose, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
February 17, 2017

CITY OF GLEN ROSE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Item 2015-001:

Condition:

All employees in the finance office use the same cash register and can take payments and process receipts. One employee performs all HR and payroll functions.

Criteria:

An essential element of any preventative control system is to segregate duties in such a manner that no single individual could commit fraud and conceal it without being discovered in a timely manner.

Cause:

In a small office, segregation of duties often presents difficulties due to the limited number of employees. However, even those with few employees may be able to assign responsibilities to achieve adequate segregation. Duties are not assign in a way to achieve adequate segregation.

Effect:

It is impossible to determine who is at fault if the cash register is short at the end of the day. Employees could be paid more or less than authorized or ghost employees could be created and paid.

Recommendation:

PBH suggests that all employees operate out of a separate cash drawer and that a separate employee reconcile the drawers and end of day reports. Separate employees should be in charge of HR and payroll.

Management's Response:

Space is a limiting factor in the work area with the hardware we utilize, we can however and will attempt to have a third party reconcile the drawer on a daily basis to assure accurate accounting of funds.

In addition to your finding, the duties of HR and payroll functions are now separate with the City Secretary assuming the HR duties and the payroll functions are maintained by the Court Clerk. As an add to that the payroll time sheets are reviewed and approved by the City Administrator prior to payment of payroll functions.

The City now has a separate Finance Director apart from the City Secretary functions.

**Contact Person Responsible
for Corrective Action:**

The City Administrator.

Item 2015-002:

<u>Condition:</u>	Bank reconciliations were not performed on all bank accounts within 30 days after receiving the month's bank statement.
<u>Criteria:</u>	Bank accounts should be reconciled monthly as a safeguard against fraud and to prevent overspending.
<u>Cause:</u>	Some accounts have little activity, but all account need to be reconciled timely and the importance of timely bank reconciliations needs to be stressed to accounting personnel.
<u>Effect:</u>	All cash and investment accounts are not being reconciled which makes it difficult for the City to detect mistakes made intentionally or unintentionally.
<u>Recommendation:</u>	PBH suggests that all bank accounts be reconciled on a monthly basis. All bank reconciliations should be documented and approved by an appropriate individual.
<u>Management's Response:</u>	The bank reconciliations on all bank accounts will be performed monthly by the Finance Director.
<u>Contact Person Responsible for Corrective Action:</u>	The City Administrator.

Item 2015-003:

<u>Condition:</u>	There were several accounts, such as receivables and payables, which were not reconciled to a sub-ledger throughout the year.
<u>Criteria:</u>	Reconciliations of these accounts should be performed monthly as a safeguard against fraud and to ensure transactions were properly recorded to the general ledger.
<u>Cause:</u>	Employees of the City were not aware that these accounts needed to be reconciled.
<u>Effect:</u>	Accounts are not being reconciled which makes it difficult for the City to detect mistakes made intentionally or unintentionally.
<u>Recommendation:</u>	PBH suggests that all balance sheet accounts be reconciled to a sub-ledger on a monthly basis. These reconciliations should be documented and approved by an appropriate individual.
<u>Management's Response:</u>	All balance sheet accounts will be reconciled to a sub-ledger on a monthly basis commencing immediately.
<u>Contact Person Responsible for Corrective Action:</u>	The City Administrator.