

CITY OF TOLAR

ANNUAL FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED SEPTEMBER 30, 2016

CITY OF TOLAR
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Tolar, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the City of Tolar, Texas, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension funding schedules on pages 3 through 9 and pages 39 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary information – proprietary fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary information – proprietary fund has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2017, on our consideration of the City of Tolar, 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 Tolar, Texas' internal control over financial reporting and compliance.

MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
March 3, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Tolar's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on September 30, 2016. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net position increased \$50,483 from prior year. Net Position of our business-type activities decreased \$25,247 (2.0%), while net position of our governmental activities increased \$75,730 (or 7.0%) after prior period adjustment.
- During the year, the City's expenses were \$75,730 less than the \$421,480 generated in taxes, other revenues, and transfers for governmental programs.
- In the City's business-type activities, revenues were \$383,650, including transfers of \$13,312, while expenses were \$408,897.
- The total cost of the City's programs was \$754,647.
- The general fund reported fund balance of \$136,840.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information that includes all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities* which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, and public service. Business-type activities include water and sewer activities.

The City's financial reporting entity does not include the funds for which the City is not accountable (component units). These organizations, such as the Tolar Economic Development Corporation are reported separately from the primary government though included in the City's overall reporting entity. This entity operates more independently or provides services directly to the citizens though the City remains accountable for their activities.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The City has two kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

A budgetary comparison schedule for the general fund can be found in required supplementary information. This statement demonstrates compliance with the City's adopted and final revised budget. In addition, a budgetary comparison schedule for the proprietary fund can be found in other supplementary information.

Proprietary funds are required in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as the water and sewer. Internal service funds provide services and charge fees to customers within the city organization such as equipment services (repair and maintenance of City vehicles) and the print shop (mail and printing services for City departments). The City has no internal service funds.

Proprietary fund statements and statements for discretely presented component units (reporting is similar to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements, but with more detail for major enterprise funds.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, other supplementary information, and other information required by GAO.

Financial Analysis of the City as a Whole

Net Position. As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

The City's net position at fiscal year-end is \$2,418,209. This is a \$50,483 increase over last year's net position of \$2,367,726, after adjusting the beginning net position for debt payments erroneously recorded in the previous year. The following Table A-1 provides a summary of the City's net position at September 30, 2016 and 2015

Table A-1
City of Tolar's Net Position

	Governmental		Business-type		Totals	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Current and Other Assets	176,876	116,216	96,244	173,072	273,120	289,288
Capital and Non-Current Assets	1,050,383	1,084,536	1,313,964	149,323	2,364,347	1,233,859
Total Assets	1,227,259	1,200,752	1,410,208	322,395	2,637,467	1,523,147
Deferred Outflows of Resources	18,752	4,250	28,521	8,258	47,273	12,508
Current Liabilities	34,988	49,042	42,853	102,667	77,841	151,709
Long Term Liabilities	59,838	62,544	126,346	131,780	186,184	194,324
Total Liabilities	94,826	111,586	169,199	234,447	264,025	346,033
Deferred Inflows of Resources	994	1,514	1,512	2,941	2,506	4,455
Net Position						
Net investment in capital assets	989,033	981,433	1,212,056	1,212,591	2,201,089	2,194,024
Restricted	20,270	20,270			20,270	20,270
Unrestricted	140,888	90,199	55,962	80,674	196,850	170,873
Total Net Position	1,150,191	1,091,902	1,268,018	1,293,265	2,418,209	2,385,167

Net Position in the City's governmental activities increased 7.0% (after the prior period adjustment) to \$1,150,191. Net Position decreased 2.0% to \$1,268,018 in business-type activities of the government. \$2,201,089 of total net position is invested in capital assets (distribution and collection system, equipment, etc) and \$20,270 is restricted for debt service. Consequently, unrestricted net position showed a \$196,850 balance at the end of this year.

Changes in Net Position. The City's total revenues were \$780,501, excluding transfers. Half (50%) of the City's revenue comes from fees charged for services, and 43 cents of every dollar raised comes from some type of tax. (See Figure A-1)

The total cost of all programs and services was \$754,647. The City's expenses cover a range of services, with approximately fifty-four percent related to business-type activities. (See Figure A-2).

Figure A-1
City Sources of Revenue for Fiscal Year 2016

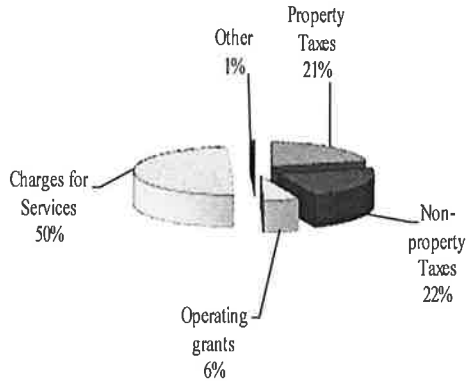


Figure A-2
City Functional Expenses for Fiscal Year 2016

Governmental Activities

Revenues and transfers for the City's governmental activities were \$421,480, while total expenses were \$345,750. The City is increasing its tax base by bringing in new businesses and homes, and the increasing property tax rate should increase property tax revenue. The increase of new business adds revenue through two avenues; 1) property tax, and 2) sales tax.

Table A-2
Changes in City of Tolar, Texas' Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
<u>Program Revenues</u>						
Charges for Services	\$ 63,117	\$ 71,997	\$ 324,162	\$ 307,757	\$ 387,279	\$ 379,754
Operating Grants and Contributions		200	46,061	209,348	46,061	209,548
<u>General Revenues</u>						
Sales tax	146,572	60,983			146,572	60,983
Property tax	167,576	160,048			167,576	160,048
Franchise tax	26,924	25,946			26,924	25,946
Investment Earnings	540	53	115	26	655	79
Other income	5,434	10,132			5,434	10,132
Total Revenues	410,163	329,359	370,338	517,131	780,501	846,490
Expenses						
General government	312,645	224,173			312,645	224,173
Police						
Streets	28,166	27,513			28,166	27,513
Debt service	4,939	6,458			4,939	6,458
Water utilities			408,897	369,173	408,897	369,173
Total Expenses	345,750	258,144	408,897	369,173	754,647	627,317

Excess (deficiency) before transfers	64,413	71,215	(38,559)	147,958	25,854	219,173
Transfers	11,317	13,658	13,312	30,042	24,629	43,700
Increase (decrease) in net position	\$ <u>75,730</u>	\$ <u>84,873</u>	\$ <u>(25,247)</u>	\$ <u>178,000</u>	\$ <u>50,483</u>	\$ <u>262,873</u>

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. Governmental funds reported ending fund balances of \$157,110.

The total ending fund balances of governmental funds show an increase of \$71,416 over the prior year. This increase is primarily the result of an increase in sales tax and property tax.

Major Governmental Funds

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The fund balance of the General Fund increased to \$136,840.

Proprietary Funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Major Proprietary Funds

The City's major proprietary fund is the Water Fund. Total net position at the end of the year was \$1,268,018. The Water Fund had a decrease in net position of \$25,247.

General Fund Budgetary Highlights

The General Fund Budget for fiscal year 2016 was approximately \$320,000. This was an increase of approximately \$90,000 from the previous year's actual expenditures. In the current year, the City budgeted for the payments to the Economic Development Corporation, increases in salary and related expenses, and increases in professional services and repair and maintenance

The City amended the budget several times during the fiscal year. The City's budget increased \$14,500. Several line items were adjusted to better reflect the actual expenditures. Actual expenditures were \$10,089 under budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of September 30, 2016, was \$1,050,383 and \$1,313,964, respectively. The total change in net capital assets was a decrease of 3.0% in the governmental and a decrease of 2.5% for business-type activities. The overall decrease was 2.7% for the City as a whole. Major capital asset additions during the current fiscal year included improvements on the park adjacent to city hall. See Table A-3 for additional information about changes in capital assets during the fiscal year.

**City of Tolar
City's Capital Assets**

	Governmental Activities		Business-type Activities		Total	
	\$ 2016	\$ 2015	\$ 2016	\$ 2015	\$ 2016	\$ 2015
Land	58,837	58,837	41,605	41,605	100,442	100,442
Buildings and improvements	734,642	734,642			734,642	734,642
Distribution and collection system			2,630,177	2,372,828	2,630,177	2,372,828
Furniture and equipment	135,252	135,252	213,767	190,227	349,019	325,479
Infrastructure	536,302	478,498			536,302	478,498
Construction in progress		43,700		215,534		259,234
Total at historical cost	<u>1,465,033</u>	<u>1,450,929</u>	<u>2,885,549</u>	<u>2,820,194</u>	<u>4,350,582</u>	<u>4,271,123</u>
Total accumulated depreciation	414,650	367,602	1,571,585	1,473,221	1,986,235	1,840,823
Net capital assets	<u>\$ 1,050,383</u>	<u>\$ 1,083,327</u>	<u>\$ 1,313,964</u>	<u>\$ 1,346,973</u>	<u>\$ 2,364,347</u>	<u>\$ 2,430,300</u>

Long-term Debt

At year-end, the City had \$155,000 in bonds payable and \$8,258 in notes payable. See Table A-4.

**Table A-4
City's Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Note payable	\$ 20,444	\$ 20,444	\$ 8,258	\$ 10,832	\$ 8,258	\$ 31,276
Bonds payable	61,350	81,450	93,650	123,550	155,000	205,000
	<u>\$ 61,350</u>	<u>\$ 101,894</u>	<u>\$ 101,908</u>	<u>\$ 134,382</u>	<u>\$ 163,258</u>	<u>\$ 236,276</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City is working on bringing residents into the City of Tolar by adding residential areas. By bringing in new residents, revenue of the City is increased through sales tax revenues and property tax revenues.

- Appraised property value used for the 2016-2017 budget preparation increased approximately \$3.3 million, or 9.7% from the previous year.
- Water rates increased in November 2016. Water revenue is expected to increase with the increase in rates. Sewer sales are expected to remain substantially the same for the fiscal year 2017. The City budgeted for increases in contracted services and street repairs.

These indicators were taken into account when adopting the general fund and water fund budgets for 2017.

The General Funds expenditures are budgeted at \$382,101, which is an increase of approximately \$70,000 from prior year expenditures. The City has added no major new programs or initiative to the 2017 budget. If these estimates are realized, the City's budgetary general fund fund balance is expected to remain the same.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Tolar's Mayor, 8712 W. Hwy 377, Tolar, Texas 76476.

BASIC FINANCIAL STATEMENTS

CITY OF TOLAR, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 150,543	\$ 42,321	\$ 192,864	56,319
Receivables:				
Property tax	5,863		5,863	
Allowance for uncollectible tax	(985)		(985)	
Accounts receivables		42,831	42,831	
Right of way	5,435		5,435	
Sales tax	24,030		24,030	
Due to/from other funds	(8,010)		(8,010)	8,010
Inventory		11,092	11,092	
Total current assets	<u>176,876</u>	<u>96,244</u>	<u>273,120</u>	<u>64,329</u>
Non-current Assets				
Capital assets:				
Land	58,837	41,605	100,442	
Buildings and improvements	685,662		685,662	
Distribution and collection system		1,224,822	1,224,822	
Furniture and equipment	16,335	47,537	63,872	
Infrastructure	289,549		289,549	
Total non-current assets	<u>1,050,383</u>	<u>1,313,964</u>	<u>2,364,347</u>	
Total Assets	<u>1,227,259</u>	<u>1,410,208</u>	<u>2,637,467</u>	<u>64,329</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to TMRS	<u>18,752</u>	<u>28,521</u>	<u>47,273</u>	
Total Deferred Outflows of Resources	<u>18,752</u>	<u>28,521</u>	<u>47,273</u>	

The accompanying notes are an integral part of this statement.

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
Current Liabilities				
Accounts payable	9,919	3,764	13,683	
Sales tax payable	762		762	
Accrued wages payable	4,207	6,496	10,703	
Note payable - current		2,693	2,693	
Bonds payable - current	20,100	29,900	50,000	
Total current liabilities	<u>34,988</u>	<u>42,853</u>	<u>77,841</u>	<u>-</u>
Non-current Liabilities				
Utility deposits		30,698	30,698	
Accrued vacation	2,163	1,352	3,515	
Net pension liability	16,425	24,981	41,406	
Note payable - non current		5,565	5,565	
Bonds payable - non current	41,250	63,750	105,000	
Total non-current liabilities	<u>59,838</u>	<u>126,346</u>	<u>186,184</u>	<u>-</u>
Total Liabilities	<u>94,826</u>	<u>169,199</u>	<u>264,025</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to TMRS	994	1,512	2,506	
Total Deferred Inflows of Resources	<u>994</u>	<u>1,512</u>	<u>2,506</u>	
NET POSITION				
Net investment in capital assets	989,033	1,212,056	2,201,089	
Restricted	20,270		20,270	
Unrestricted	140,888	55,962	196,850	64,329
Total Net Position	<u>\$ 1,150,191</u>	<u>\$ 1,268,018</u>	<u>\$ 2,418,209</u>	<u>\$ 64,329</u>

CITY OF TOLAR, TEXAS

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 312,645	\$ 63,117	\$
Public service			
Streets	28,166		
Debt service	4,939		
Total governmental activities	<u>345,750</u>	<u>63,117</u>	
Business-type Activities:			
Water utilities	<u>408,897</u>	<u>324,162</u>	<u>46,061</u>
Total business-type activities	<u>408,897</u>	<u>324,162</u>	<u>46,061</u>
Total Primary Government	<u>\$ 754,647</u>	<u>\$ 387,279</u>	<u>\$ 46,061</u>
Component Unit			
Economic Development Corporation	\$ _____	_____	_____
	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
General Revenues:			
Taxes:			
Sales tax			
Property tax			
Right of way			
Investment Earnings			
Miscellaneous Income			
Transfers			
Total General Revenues and Transfers			
Change in Net Position			
Net Position - Beginning			
Prior Period Adjustment			
Net Position - Beginning, As Restated			
Net Position - Ending			

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
\$ (249,528)	\$	\$ (249,528)	
(28,166)		(28,166)	
(4,939)		(4,939)	
<u>(282,633)</u>		<u>(282,633)</u>	
	<u>(38,674)</u>	<u>(38,674)</u>	
	<u>(38,674)</u>	<u>(38,674)</u>	
<u>(282,633)</u>	<u>(38,674)</u>	<u>(321,307)</u>	
			<u>48,857</u>
146,572		146,572	
167,576		167,576	
26,924		26,924	
540	115	655	
5,434		5,434	
11,317	13,312	24,629	<u>(24,629)</u>
<u>358,363</u>	<u>13,427</u>	<u>371,790</u>	<u>24,228</u>
<u>75,730</u>	<u>(25,247)</u>	<u>50,483</u>	<u>24,228</u>
1,091,902	1,293,265	2,385,167	40,101
(17,441)		(17,441)	
<u>1,074,461</u>	<u>1,293,265</u>	<u>2,367,726</u>	<u>40,101</u>
\$ <u>1,150,191</u>	\$ <u>1,268,018</u>	\$ <u>2,418,209</u>	\$ <u>64,329</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF TOLAR, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Current:			
Cash and cash equivalents	\$ 150,543	\$	\$ 150,543
Receivables:			
Property tax	4,371	1,492	5,863
Allowance for uncollectible tax	(715)	(270)	(985)
Right of way	5,435		5,435
Sales tax	24,030		24,030
Due from other funds		20,270	20,270
Total Assets	\$ <u>183,664</u>	\$ <u>21,492</u>	\$ <u>205,156</u>
LIABILITIES:			
Current Liabilities			
Accounts payable	\$ 9,919	\$	\$ 9,919
Sales tax payable	762		762
Accrued liabilities	4,207		4,207
Due to other funds	20,270		20,270
Due to EDC	8,010		8,010
Total Liabilities	<u>43,168</u>		<u>43,168</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue - property tax	<u>3,656</u>	<u>1,222</u>	<u>4,878</u>
Total Deferred Inflows of Resources	<u>3,656</u>	<u>1,222</u>	<u>4,878</u>
FUND BALANCE:			
Restricted:			
Debt service		20,270	20,270
Unassigned	<u>136,840</u>		<u>136,840</u>
Total Fund Balance	<u>136,840</u>	<u>20,270</u>	<u>157,110</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ <u>183,664</u>	\$ <u>21,492</u>	\$ <u>205,156</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
 SEPTEMBER 30, 2016

Total fund balances - governmental funds balance sheet	\$ 157,110
Amounts reported for governmental activities in the statement of net position (SNP) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,450,929 and the accumulated depreciation was \$367,602.	1,083,327
Current year capital outlays are expenditures in the fund financial statements, but are shown as increases to capital assets in the statement of net position.	14,104
Long-term liabilities at the beginning of the year of \$101,894, including bonds of \$81,450 are not due and payable in the current period, and therefore are not reported as liabilities in the funds.	(101,894)
Long-term debt principal payments are expenditures in the fund financial statements but they should be shown as reductions in long-term debt in the government-wide financial statements.	40,544
Included in the noncurrent liabilities is the recognition of the city's net pension liability required by GASB 68 in the amount of \$16,425, a deferred resource inflow in the amount of \$994, and a deferred resource outflow in the amount of \$18,752. This resulted in an increase in net position by \$1,333.	1,333
Vacation accrual is recorded in the statement of net position. The balance decreases net position	(2,163)
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.	4,878
Depreciation expense decreases net position in SNP.	<u>(47,048)</u>
Net position of governmental activities - statement of net position	<u>\$ 1,150,191</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS
 YEAR ENDED SEPTEMBER 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Sales tax	\$ 146,572	\$	\$ 146,572
Property tax	121,457	45,824	167,281
Right of way	26,924		26,924
License and permits	17,855		17,855
Garbage collection income	44,721		44,721
Fines and forfeitures	541		541
Investment income	540		540
Miscellaneous income	5,434		5,434
Total Revenues	364,044	45,824	409,868
EXPENDITURES			
Current:			
General government	273,560		273,560
Public service			
Streets	16,622		16,622
Debt service	21,289	24,194	45,483
Total Expenditures	311,471	24,194	335,665
Excess (Deficiency) of Revenues over (Under) Expenditures	52,573	21,630	74,203
Other Financing Uses			
Operating transfers out	18,843	(21,630)	(2,787)
Total Other Financing Uses	18,843	(21,630)	(2,787)
Net Change in Fund Balances	71,416	-	71,416
Fund Balance - Beginning	82,865	20,270	103,135
Prior Period Adjustment	(17,441)		(17,441)
Fund Balance - Beginning, as Restated	65,424	20,270	85,694
Fund Balance - Ending	\$ 136,840	\$ 20,270	\$ 157,110

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED SEPTEMBER 30, 2016

Total change in fund balances - total governmental funds	\$	71,416
<p>Amounts reported for governmental activities in the statement of activities (SOA) are different because:</p>		
Depreciation expense decreases net position in SNP.		(47,048)
Current year capital outlays are expenditures in the fund financial statements, but are shown as increases to capital assets in the statement of net position.		14,104
Long-term debt principal payments are expenditures in the fund financial statements but they should be shown as reductions in long-term debt in the government-wide financial statements.		40,544
The implementation of GASB No. 68 required that certain expenditures be de-expended and recorded as deferred resource inflows. These contributions made after the measurement date of December 31, 2015, caused the change in the ending net position to increase in the amount of \$3,685. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling \$2,884. The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by \$3,414. The result of these changes is to decrease the change in net position by \$2,613.		(2,613)
Vacation accrual is recorded in the statement of net position. The balance decreases net position		(968)
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.		<u>295</u>
Total change in net position of governmental activities - statement of activities	\$	<u><u>75,730</u></u>

The accompanying notes are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF TOLAR, TEXAS

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
SEPTEMBER 30, 2016

	<u>Water</u>	<u>Total Proprietary Funds</u>
ASSETS		
Current:		
Cash and cash equivalents	\$ 42,321	\$ 42,321
Receivables, net	42,831	42,831
Inventory	11,092	11,092
Total current	<u>96,244</u>	<u>96,244</u>
Non current:		
Land	41,605	41,605
Distribution and collection system, net of depreciation	1,224,822	1,224,822
Equipment, net of depreciation	47,537	47,537
Total non current	<u>1,313,964</u>	<u>1,313,964</u>
TOTAL ASSETS	<u>1,410,208</u>	<u>1,410,208</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to TMRS	28,521	28,521
Total Deferred Outflows of Resources	<u>28,521</u>	<u>28,521</u>
LIABILITIES		
Current		
Accounts payable	3,764	3,764
Accrued expenses	6,496	6,496
Current portion - notes payable	2,693	2,693
Current portion - bonds payable	29,900	29,900
Total current	<u>42,853</u>	<u>42,853</u>
Non current:		
Utility deposits	30,698	30,698
Accrued vacation	1,352	1,352
Net pension liability	24,981	24,981
Notes payable	5,565	5,565
Bonds payable	63,750	63,750
Total non current	<u>126,346</u>	<u>126,346</u>
TOTAL LIABILITIES	<u>169,199</u>	<u>169,199</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to TMRS	1,512	1,512
Total Deferred Inflows of Resources	<u>1,512</u>	<u>1,512</u>
NET POSITION		
Net investment in capital assets	1,212,056	1,212,056
Unrestricted	55,962	55,962
TOTAL NET POSITION	<u>\$ 1,268,018</u>	<u>\$ 1,268,018</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
 YEAR ENDED SEPTEMBER 30, 2016

	<u>Water</u>	<u>Total Proprietary Funds</u>
Operating Revenues:		
Charges for services		
Water sales and fees	\$ 324,162	\$ 324,162
Total operating revenues	<u>324,162</u>	<u>324,162</u>
Operating Expenses:		
Water department	<u>402,116</u>	<u>402,116</u>
Total operating expenses	<u>402,116</u>	<u>402,116</u>
Net operating loss	<u>(77,954)</u>	<u>(77,954)</u>
Nonoperating revenues (expenses):		
Interest income	115	115
Grant income	46,061	46,061
Interest expense	(6,781)	(6,781)
Transfers in	<u>13,312</u>	<u>13,312</u>
Total nonoperating revenues (expenses)	<u>52,707</u>	<u>52,707</u>
Change in Net Position	(25,247)	(25,247)
Net Position - Beginning of Year	<u>1,293,265</u>	<u>1,293,265</u>
Net Position - End of Year	\$ <u>1,268,018</u>	\$ <u>1,268,018</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2016

	Water	Total Enterprise Funds
<u>Cash flows from operating activities:</u>		
Cash received from customers	\$ 395,414	\$ 395,414
Cash payments for salary and related expenses	(171,313)	(171,313)
Cash payments to suppliers for goods and services	(187,585)	(187,585)
Net cash provided by operating activities	<u>36,516</u>	<u>36,516</u>
<u>Cash flows from noncapital financing activities:</u>		
Transfers from/to other funds	13,312	13,312
Pension funding	5,639	5,639
Net cash provided by noncapital financing activities	<u>18,951</u>	<u>18,951</u>
<u>Cash flows from capital and related financing activities:</u>		
Acquisition of property and equipment	(65,355)	(65,355)
Grant income	46,061	46,061
Interest paid on long term debt	(6,781)	(6,781)
Principal paid on capital leases	(2,574)	(2,574)
Principal paid on bonds and notes payable	(29,900)	(29,900)
Net cash used by capital and related financing activities	<u>(58,549)</u>	<u>(58,549)</u>
<u>Cash flows from investing activities</u>		
Interest income	115	115
Net cash provided from investing activities	<u>115</u>	<u>115</u>
Net Increase in Cash	(2,967)	(2,967)
Cash at Beginning of Year	45,288	45,288
Cash at End of Year:	<u>\$ 42,321</u>	<u>\$ 42,321</u>
Supplementary Information		
Interest paid	<u>\$ 6,781</u>	<u>\$ 6,781</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (77,954)	\$ (77,954)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	98,364	98,364
(Increase) decrease in operating assets		
Receivables	591	591
Grant receivable	70,661	
Inventory	2,609	2,609
Increase (decrease) in operating liabilities		
Accounts payable	(61,339)	(61,339)
Utility deposits	4,744	4,744
Accrued expenses	(1,160)	(1,160)
Net cash provided by operating activities	<u>\$ 36,516</u>	<u>\$ (34,145)</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the City of Tolar, Texas (City) are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2016.

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

Financial Reporting Entity

The City is a Type A "general law" municipality and operates under a Mayor-Council form of government. The City provides the following services as authorized by its charter: public safety, public works, waterworks, and general government.

As required by the accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide statements to emphasize it is legally separate from the primary government.

Component Unit:

The Tolar Economic Development Corporation was incorporated in the State of Texas on November 18, 2013. The Corporation was organized exclusively for the purpose of benefiting and accomplishing public purposes of the City of Tolar, Texas, by promoting, assisting, and enhancing economic development activities for the city as provided under Section 4A of the Texas Development Corporation Act of 1979, and as authorized by the governing body of the City of Tolar, Texas. The Corporation receives its primary funding from a local sales tax approved by the voters. A Board of Directors manages the affairs of the Corporation. The fiscal year of the Corporation is the same as the City of Tolar, Texas.

Government-wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Fiduciary funds or component units that are fiduciary in nature are excluded from government-wide financial statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges and uses of the City's services; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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). 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 in these statements. 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, while grants are recognized when grantor eligibility requirements are met.

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, right of way (fees), 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 fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include 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.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

Fund Types and Major Funds

Governmental funds

The City reports the following major governmental fund:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

In addition, the City reports the following as a fund, not considered to be a major fund:

Debt Service Fund – accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Proprietary funds

The City reports the following major enterprise fund:

Water Fund – reports for revenues and expenses associated with water services for the citizens of the City.

Assets, Liabilities, and Net Position or Equity

Cash and cash equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have an original maturity of three months or less when purchased.

Inventory

Inventory is valued at cost which approximates market, using the first-in-first-out (FIFO) method. The cost of inventory is recorded as expenditures when used (consumption method).

Capital assets, depreciation, and amortization

The City's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund's financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with costs of \$5,000 or more, as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in non-operating revenues and expenses in the proprietary fund statements and on general revenues in the government-wide statements.

Estimated useful lives for depreciable assets are as follows:

Water and sewer lines	40 years
Buildings	30 years
Equipment	10 years
Vehicles	5 years

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Long-term debt

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities.

The governmental fund financial statements recognize the proceeds for debt as other financing sources of the current period. Issuance costs and debt payments are reported as expenditures.

Compensated absences

The City's policy permits employees to accumulate up to 128 hours of earned but unused vacation benefits. Upon termination of employment, employees will be paid for any unused vacation benefits that have been earned through the last day of work.

Deferred Outflows / Inflows of Resources

Deferred outflows of resources refer to the consumption of net assets that are applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets. The City has no amounts recorded as deferred outflows of resources in the governmental fund financial statements and \$47,273 and \$28,521 of deferred outflows related to TMRS in the government-wide financial statements and the proprietary fund statements, respectively.

Deferred inflows of resources refer to the acquisition of net assets that are applicable to a future reporting period. Deferred inflows of resources have a negative effect on net position, similar to liabilities. For the current period, the difference in delinquent taxes receivable and the associated allowance for uncollectible taxes of \$4,878 is considered a deferred inflow of resources in the governmental fund financial statements, while \$2,506 and \$1,512 of deferred inflows related to TMRS is considered deferred inflow of resources in the government-wide financial statements and the proprietary fund statements, respectively.

Fund balance classification

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. The City had \$0 classified as nonspendable at September 30, 2016.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the revenue note and are restricted through debt covenants. The City classified \$20,270 as restricted for debt service at September 30, 2016.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 Council removes or changes the specified use by taking the same type of action (ordinance or resolution) 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. The City classified \$0 as committed funds at September 30, 2016.

Assigned – This classification includes amounts that are constrained by the Council’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the Council delegating this responsibility to the City Secretary through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has no amounts classified as assigned at September 30, 2016.

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.

The City would typically use restricted fund balances first, followed by committed fund balances, and then assigned fund balances, as appropriate opportunities arise, but reserves the right to selectively spend unassigned fund balances first to defer the use of these other classified funds.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. As such, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budget policy and practice

The City Secretary submits an annual budget to the City Council in accordance with the requirements of the State of Texas. The budget is presented to the City Council for review, and public hearings are held to address citizen concerns. In September, the City Council adopts the annual fiscal year budgets for City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – continued

Basis of budgeting

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: general governmental services, public service – highways and streets, and debt service. Budget revisions at this level are subject to final review by the City Council.

Budgets for the governmental funds and proprietary fund operations are budgeted on the modified accrual basis of accounting. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the expenditure is incurred. The budget and actual financial statements are reported on this basis. Budgets for the proprietary fund are prepared on the accrual basis of accounting with the exception of depreciation expense and capital outlay. The budget and actual statements are reported on this basis. The budget for the general fund is presented as required supplementary information and the budget for the water fund is presented as supplementary information.

The City had negative budget variances in the following departments:

General Fund		
General services	\$	21,169
Water Fund		95,252

NOTE 3: DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash Deposits

The City's cash deposits were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name at September 30, 2016.

Tolar Economic Development Corporation's cash deposits were entirely covered by FDIC insurance at September 30, 2016.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act ("ACT"), to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The ACT requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports an establishment of appropriate

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 3: DEPOSITS AND INVESTMENTS - continued

policies, the City adhered to the requirements of the ACT. Additionally, investment practices of the City were in accordance with local policies.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The City has demand deposits and money market accounts.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Analysis of Specific Deposit and Investment Risks

- Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.
- Custodial Credit Risk – Deposits and investments are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the city's name. At September 30, 2016, the City's deposits were entirely collateralized and therefore, not exposed to custodial credit risk.
- Concentration of Credit Risk – the risk of loss attributed to the magnitude of a government's investment in a single issuer. At September 30, 2016, since the City has no investments, the City was not exposed to concentration of credit risk.
- Interest Rate Risk – the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of investments to less than one year. The City monitors the interest rates to minimize the exposure to interest rate risk.
- Foreign Currency Risk – the risk that exchange rates will adversely affect the fair value of an investment. As of September 30, 2016, the City was not exposed to foreign currency risk.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 4: RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE

Enterprise Receivables

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The City estimates an allowance for uncollectible accounts which represent the City's estimate of the amount of accounts receivable that are uncollectible based on collection history and individual specific circumstances. As of September 30, 2016, the City had recorded an allowance for uncollectible accounts of \$3,523. Receivables at September 30, 2016 are shown as follows:

Primary government:	
Water fund	\$ <u>42,831</u>
Total primary government	\$ <u><u>42,831</u></u>

Property Taxes Receivable, Unavailable Revenue and Property Tax Calendar

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowance for uncollectible taxes receivable within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority for the Texas Legislature.

In the governmental fund financial statements, property tax receivables are recorded in the General Fund. At fiscal year-end, the receivables represent delinquent tax receivables. If the receivables are not paid within 60 days of year-end, they are recorded as unavailable revenue.

In the government-wide financial statements, property tax receivable and related revenue include all amounts due the City regardless of when cash is received. Over time, substantially all property taxes are collected.

NOTE 5: CAPITAL ASSETS

The following schedule provides a summary of changes in capital assets:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 58,837	\$	\$	\$ 58,837
Construction in progress	43,700	14,104	57,804	
Total capital assets not being depreciated	102,537	14,104	57,804	58,837

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 5: CAPITAL ASSETS - continued

Capital assets being depreciated				
Buildings	734,642			734,642
Equipment	135,252			135,252
Land improvements		57,804		57,804
Infrastructure	478,498			478,498
Total capital assets being depreciated	<u>1,348,392</u>	<u>57,804</u>		<u>1,406,196</u>
Less accumulated depreciation for:				
Buildings	(86,183)	(20,601)		(106,784)
Equipment	(106,904)	(12,013)		(118,917)
Infrastructure	(174,515)	(14,434)		(188,949)
Total accumulated depreciation	<u>(367,602)</u>	<u>(47,048)</u>		<u>(414,650)</u>
Total capital assets being depreciated, net	<u>980,790</u>	<u>10,756</u>		<u>991,546</u>
Governmental activities capital assets, net	<u>1,083,327</u>	<u>24,860</u>	<u>57,804</u>	<u>1,050,383</u>

Depreciation was charged to functions as follows:

Governmental activities:

General government	\$	26,519
Police		8,985
Streets		<u>11,544</u>
Total depreciation expense - governmental activities	\$	<u>47,048</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	41,605			41,605
Construction in progress	215,534	41,815	257,349	
Total capital assets not being depreciated	<u>257,139</u>	<u>41,815</u>	<u>257,349</u>	<u>41,605</u>
Capital assets being depreciated				
Distribution and collection system	2,372,828	257,349		2,630,177
Equipment	190,227	23,540		213,767
Total capital assets being depreciated	<u>2,563,055</u>	<u>280,889</u>		<u>2,843,944</u>
Less accumulated depreciation for:				
Distribution and collection system	(1,320,704)	(84,651)		(1,405,355)
Equipment	(152,517)	(13,713)		(166,230)
Total accumulated depreciation	<u>(1,473,221)</u>	<u>(98,364)</u>		<u>(1,571,585)</u>
Total capital assets being depreciated, net	<u>1,089,834</u>	<u>182,525</u>		<u>1,272,359</u>
Business-type activities, net	<u>1,346,973</u>	<u>224,340</u>	<u>257,349</u>	<u>1,313,964</u>
Total Primary Government	\$ <u>2,430,300</u>	\$ <u>249,200</u>	\$ <u>315,153</u>	\$ <u>2,364,347</u>

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 6: LONG-TERM DEBT

Combination Tax and Revenue Certificate of Obligation, Series 2005

A series of bonds dated January 13, 2005, for \$425,000, was issued for the construction of public works and the purchase of materials, supplies, equipment, machinery, buildings, land and rights-of-way for authorized needs and purposes and for the payment of contractual obligations for professional services. The bonds were issued with interest rates ranging from 3.00% to 5.15% and mature annually through September 15, 2019, with interest due semiannually. The balance of these bonds at September 30, 2016 is as follows:

Governmental activities	\$ 23,100
Business-type activities	<u>86,900</u>
	<u>\$ 110,000</u>

General Obligation Refunding Bonds, Series 2005

A series of bonds dated January 13, 2005, for \$415,000, was issued for the purpose of refunding the Series 2001 bonds in the amounts of \$285,000 and \$215,000, for a total of \$500,000. The bonds were issued with interest rates ranging from 3.00% to 5.15% and mature annually through September 15, 2019, with interest due semiannually. The balance of these bonds at September 30, 2016 is as follows:

Governmental activities	\$ 38,250
Business-type activities	<u>6,750</u>
	<u>\$ 45,000</u>

Note Payable to Heritage National Bank

On September 8, 2004, the City took out a note payable to purchase the property at 409 Tolar Cemetery Road, Tolar, Texas. The principal amount of the note was \$33,000 with an interest rate of 4.5%, secured by the property. Payments are due monthly with the final payment being October 1, 2019. Payments are \$252 per month. The balance of this note payable is \$8,258 at September 30, 2016.

Note Payable to Government Capital

On October 1, 2012, the City entered into a note agreement with Government Capital for the purchase of a copysync system. The principal amount of the note was \$44,927, with an interest rate of 4.1%, secured by hardware and software. Annual payments of \$12,394 are due with the final payment on April 1, 2016. This note payable was paid in full during the year ended September 30, 2016.

Note Payable to First National Bank

On June 3, 2013, the city entered into a note agreement with First National Bank for the costs of furnishing the city hall. The principal amount of the note was \$25,000, with an interest rate of 4.0%. This note is unsecured. Quarterly payments of \$2,223 are due with the final payment on June 1, 2016. The balance on this note payable was paid in full during the year ended September 30, 2016.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 6: LONG-TERM DEBT - continued

The following provides a summary of changes in long-term debt:

	Balance at 9/30/2015	Additions	Retirements	Balance at 9/30/2016	Due Within One Year
<i>Governmental Activities</i>					
Combination Tax & Revenue					
Cert of Obl, Series 2005	\$ 30,450	\$ -	\$ 7,350	\$ 23,100	\$ 7,350
General Obligation Refunding					
Bonds Series 2005	51,000		12,750	38,250	12,750
Copsync	11,904		11,904	-	
First National Bank	8,540		8,540	-	
	<u>\$ 101,894</u>	<u>\$ -</u>	<u>\$ 40,544</u>	<u>\$ 61,350</u>	<u>\$ 20,100</u>
<i>Business-type Activities</i>					
Combination Tax & Revenue					
Cert of Obl, Series 2005	\$ 114,550	\$ -	\$ 27,650	\$ 86,900	\$ 27,650
General Obligation Refunding					
Bonds Series 2005	9,000		2,250	6,750	2,250
Heritage National Bank	10,832		2,574	8,258	2,693
	<u>\$ 134,382</u>	<u>\$ -</u>	<u>\$ 32,474</u>	<u>\$ 101,908</u>	<u>\$ 32,593</u>

Annual requirements to amortize debt outstanding as of September 30, 2016 are as follows:

	Interest	Principal	Total
<i>Governmental Activities</i>			
2017	\$ 3,109	\$ 20,100	\$ 23,209
2018	2,104	20,100	22,204
2019	1,090	21,150	22,240
	<u>\$ 6,303</u>	<u>\$ 61,350</u>	<u>\$ 67,653</u>
<i>Business-type Activities</i>			
2017	\$ 5,085	\$ 32,593	\$ 37,678
2018	3,467	32,716	36,183
2019	1,827	36,599	38,426
	<u>\$ 10,379</u>	<u>\$ 101,908</u>	<u>\$ 112,287</u>

The amount of interest cost charged to expenses during the year ended September 30, 2016, was \$11,805.

NOTE 7: RISK MANAGEMENT – CLAIMS AND JUDGEMENTS

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and through the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool for the benefit of 2,800 individual governmental units located within the state. TML Intergovernmental Risk Pool (Pool) is considered a self-sustaining risk pool that provides coverage for its members. The City's contributions to the Pool are limited to the amount of premiums as calculated at the beginning of each fund year. The Pool's liability is limited to the coverage that the City elects as stated in the Pool's Declaration of Coverage for that fund year. Settled claims have not exceeded insurance coverage limits for the past three years.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 8: TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions.

The following schedule reports transfers and payments within the reporting entity:

	Transfer In	Transfer Out	Total
General fund	\$ 11,317	\$	11,317
Water fund	13,312		13,312
Economic Development Corporation		(24,629)	(24,629)

The following schedule reports payables and receivables with funds.

Due To	Due From	
General fund	Debt Service fund	\$ 20,270
Economic development Corporation		(8,010)

NOTE 9: DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

Benefits Provided

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

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

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

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: DEFINED BENEFIT PENSION PLAN - continued

	Plan Year	
	2016	2015
Employee deposit rate	7.0%	7.0%
Matching ration (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service).	60/5, 0/25	60/5, 0/25
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms.

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

	2014	2015
Inactive employees or beneficiaries currently receiving benefits	0	0
Inactive employees entitled to but not yet receiving benefits	5	6
Active employees	5	5
	10	11

Contributions

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

Employees for the City of Tolar were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Tolar were 6.46% and 7.54% in calendar years 2015 and 2016, respectively. The city's contributions to TMRS for the year ended September 30, 2016, were \$14,787, and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

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

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension investment expense, including inflation

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: *DEFINED BENEFIT PENSION PLAN - continued*

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 Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Because the city is considered a small city by TMRS, these percentages were reduced by 4% for a load of life factor to create a more conservative estimate. 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: DEFINED BENEFIT PENSION PLAN - continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (c)</u>
Balance at 12/31/14	\$ 369,922	\$ 373,481	\$ (3,559)
Changes for the year:			
Service Cost	26,769		26,769
Interest	26,831		26,831
Changes of benefit terms	-		-
Difference between expected and actual experience	5,248		5,248
Changes of assumptions	11,509		11,509
Contributions - employer		11,914	(11,914)
Contributions - employee		13,280	(13,280)
Net investment income		551	(551)
Benefit payments, including refunds of employee contributions			-
Administrative expenses		(336)	336
Other charges		(17)	17
Net changes	<u>70,357</u>	<u>25,392</u>	<u>44,965</u>
Balance at 12/31/15	<u>\$ 440,279</u>	<u>\$ 398,873</u>	<u>\$ 41,406</u>

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: DEFINED BENEFIT PENSION PLAN - continued

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, 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 (5.75%) or 1-percentage point higher (7.75%) 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	\$ 99,371	\$ 41,406	\$ (6,938)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2016, the city recognized pension expense of \$22,696.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 3,949	\$ 2,506
Changes in actuarial assumptions	8,660	
Difference between projected and actual investment earnings	23,022	
Contributions subsequent to the measurement date	11,642	
Total	\$ 47,273	\$ 2,506

\$11,642 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	
2016	\$ 8,167
2017	9,559
2018	10,114
2019	5,285
2020	-
Thereafter	-
	\$ 33,125

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 10: 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.

Contributions

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

Schedule of Contribution Rates: (RETIREE-only portion of the rate)			
Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2012	0.15%	0.15%	100.0%
2013	0.16%	0.16%	100.0%
2014	0.17%	0.17%	100.0%
2015	0.18%	0.18%	100.0%
2016	0.17%	0.17%	100.0%

NOTE 11: HEALTH CARE COVERAGE

The City pays the employee's portion of health coverage. The city's annual cost was \$42,135. Employees are responsible for the cost of dependent coverage and any additional coverage over the basic amount. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

NOTE 12: GARBAGE COLLECTION SERVICE CONTRACT

The City has a sanitation contract with Progressive Waste Solutions of Texas wherein Progressive Waste Solutions of Texas picks up all garbage of the City and disposes of it. The rates charged flow through to the residents and are included in the water billings they receive. Revenue collected for garbage service is recorded in the General Fund. Total collected during the year ended September 30, 2016 was \$44,721.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 13: PRIOR PERIOD ADJUSTMENT

During fiscal year 2016, it was noted that debt payments in the amount of \$17,441 were erroneously recorded in the prior year. The City recognized a decrease in fund balance in the amount of \$17,441.

NOTE 14: NEW GASB STATEMENTS

In June 2015, the GASB issued Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement replaces Statements No. 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50 *Pension Disclosures*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement supersedes Statement No. 55 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The City implemented this statement.

In August 2015, the GASB issued Statement No 77 *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 14: NEW GASB STATEMENTS - continued

In December 2015, the GASB issued Statement No. 78 *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan.) This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods after December 15, 2015. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In December 2015, the GASB issued Statement No. 79 *Certain External Investment Pools and Pool Participants*. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2016, the GASB issued Statement No. 80 *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 81 *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 82 *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 14: NEW GASB STATEMENTS - continued

In November 2016, the GASB issued Statement No. 83 *Certain Asset Retirement Obligations*. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2017, the GASB issued Statement No 84 *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TOLAR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales tax	\$ 95,000	\$ 95,000	\$ 146,572	\$ 51,572
Property tax	163,448	120,103	121,457	1,354
Total taxes	<u>258,448</u>	<u>215,103</u>	<u>268,029</u>	<u>52,926</u>
License & permits				
Right of way	24,000	24,000	26,924	2,924
License and permits	7,600	23,100	17,855	(5,245)
Total license & permits	<u>31,600</u>	<u>47,100</u>	<u>44,779</u>	<u>(2,321)</u>
Fines and forfeitures	650	650	541	(109)
Investment income	50	50	540	490
Garbage collection income	40,593	40,593	44,721	4,128
Miscellaneous income	4,510	4,510	5,434	924
Total Revenues	<u>335,851</u>	<u>308,006</u>	<u>364,044</u>	<u>56,038</u>
EXPENDITURES				
General government				
General services:				
Insurance	4,072	4,072	3,660	412
Contract sanitation	40,593	40,593	43,817	(3,224)
Election expense	3,000	3,341	3,341	
Economic Development Corporation	31,667	31,667	48,857	(17,190)
Miscellaneous	1,650	1,400	1,285	115
Office supplies	2,849	3,050	2,922	128
Payroll	97,010	97,010	97,474	(464)
Payroll Tax	5,869	5,869	5,960	(91)
Retirement	5,785	5,785	5,639	146
Printing & copies	400	525	2,660	(2,135)
Professional services	14,827	17,577	20,367	(2,790)
Repair & maintenance	1,000	10,000	6,811	3,189
Postage and delivery	500	625	535	90
Reference books	400	400	249	151
Software	3,200	4,000	3,978	22
Technical support	400	1,200	700	500
Telephone	4,470	4,674	4,670	4
Travel	1,000	1,404	1,434	(30)
Utilities	19,199	19,199	19,201	(2)
Total general government	<u>237,891</u>	<u>252,391</u>	<u>273,560</u>	<u>(21,169)</u>
Public service:				
Streets				
Repair	23,433	23,433	16,622	6,811
	<u>23,433</u>	<u>23,433</u>	<u>16,622</u>	<u>6,811</u>

CITY OF TOLAR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND - CONTINUED
YEAR ENDED SEPTEMBER 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Debt service:				
Note principal payments	41,591	41,591	20,446	21,145
Interest payments	4,145	4,145	843	3,302
Total debt service	<u>45,736</u>	<u>45,736</u>	<u>21,289</u>	<u>24,447</u>
 Total expenditures	<u>307,060</u>	<u>321,560</u>	<u>311,471</u>	<u>10,089</u>
 Excess (Deficiency) of Revenues Over (Under)				
Expenditures	<u>28,791</u>	<u>(13,554)</u>	<u>52,573</u>	<u>66,127</u>
 OTHER FINANCING USES				
Transfers out	<u>(28,514)</u>	<u>(28,514)</u>	<u>18,843</u>	<u>47,357</u>
Total Other Financing Uses	<u>(28,514)</u>	<u>(28,514)</u>	<u>18,843</u>	<u>47,357</u>
 Net change in fund balance	277	(42,068)	71,416	113,484
 Fund Balance - Beginning	82,865	82,865	82,865	
Prior period adjustment			<u>(17,441)</u>	
Fund Balance - Beginning, as Restated	<u>82,865</u>	<u>82,865</u>	<u>65,424</u>	<u>-</u>
 Fund Balance - Ending	<u>\$ 83,142</u>	<u>\$ 40,797</u>	<u>\$ 136,840</u>	<u>\$ 113,484</u>

CITY OF TOLAR

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEAR ENDED SEPTEMBER 30, 2016

	2015	2014
Total Pension Liability		
Service cost	\$ 26,769	\$ 22,156
Interest (on the total pension liability)	26,831	23,895
Changes of benefit terms		
Difference between expected and actual experience	5,248	(6,404)
Change of assumptions	11,509	
Benefit payments, including refunds of employee contributions		
Net Change in Total Pension Liability	70,357	39,647
Total Pension Liability - Beginning	369,922	330,275
Total Pension Liability - Ending	\$ 440,279	\$ 369,922
 Plan Fiduciary Net Position		
Contributions - employer	\$ 11,914	\$ 10,360
Contributions - employee	13,280	11,641
Net investment income	551	19,038
Benefit payments, including refunds of employee contributions		
Administrative expense	(336)	(199)
Other	(17)	(16)
Net Change in Plan Fiduciary Net Position	25,392	40,824
Plan Fiduciary Net Position - Beginning	373,481	332,657
Plan Fiduciary Net Position - Ending	\$ 398,873	\$ 373,481
 Net Pension Liability - Ending	\$ 41,406	\$ (3,559)
 Plan fiduciary Net Position as a Percentage of Total Pension Liability	90.60%	100.96%
 Covered Employee Payroll	189,713	166,300
 Net Pension Liability as a Percentage of Covered Employee Payroll	21.83%	-2.14%

CITY OF TOLAR

SCHEDULE OF CONTRIBUTIONS
YEAR ENDED SEPTEMBER 30, 2016

	2016	2015
Actuarially determined contribution	\$ 14,787	\$ 12,036
Contributions in relation to actuarially determined contribution	(14,787)	(12,036)
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 203,094	\$ 185,434
Contributions as a percentage of covered employee payroll	7.28%	6.49%

Notes to Schedule of Contributions

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year Smoothed Market; 15% Soft Corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the city's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information	There were no benefit changes during the year.

OTHER SUPPLEMENTAL INFORMATION

CITY OF TOLAR, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
BUDGET AND ACTUAL - WATER FUND
 YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
OPERATING REVENUES:				
Water sales	\$ 308,080	\$ 314,600	\$ 324,162	\$ 9,562
Total Operating Revenues	<u>308,080</u>	<u>314,600</u>	<u>324,162</u>	<u>9,562</u>
OPERATING EXPENSES:				
Contract labor	1,200	1,200	1,192	8
Depreciation expense			98,364	(98,364)
Insurance	11,836	12,049	11,941	108
Lab tests	6,600	9,260	8,459	801
Office expense	3,750	6,698	7,027	(329)
Payroll expenses	170,565	167,765	145,511	22,254
Payroll taxes			9,938	(9,938)
Retirement			14,704	(14,704)
Permit fees	9,675	9,765	9,581	184
Professional services	7,580	9,000	9,000	
Repairs and maintenance	6,193	34,600	26,147	8,453
Supplies	11,233	10,280	14,654	(4,374)
Telephone	3,184	3,684	3,515	169
Travel	2,880	1,105	1,261	(156)
Uniforms		1,065	1,340	(275)
Utilities	30,333	35,393	35,425	(32)
Vehicle expense	5,000	5,000	4,057	943
Total Operating Expenses	<u>270,029</u>	<u>306,864</u>	<u>402,116</u>	<u>(95,252)</u>
Net operating income (loss)	<u>38,051</u>	<u>7,736</u>	<u>(77,954)</u>	<u>(85,690)</u>
Nonoperating revenues (expenses)				
Interest income	20	20	115	95
Grant income		116,721	46,061	(70,660)
Interest expense	(6,214)	(6,359)	(6,781)	(422)
Transfers in	28,514	28,514	13,312	(15,202)
Total nonoperating revenues (expenses)	<u>22,320</u>	<u>138,896</u>	<u>52,707</u>	<u>(86,189)</u>
Net income (loss)	60,371	146,632	(25,247)	(171,879)
Net Position - Beginning of Year	<u>1,293,265</u>	<u>1,293,265</u>	<u>1,293,265</u>	
Net Position - End of Year	\$ <u>1,353,636</u>	\$ <u>1,439,897</u>	\$ <u>1,268,018</u>	\$ <u>(171,879)</u>

OTHER INFORMATION REQUIRED BY GAO

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 City Council
City of Tolar, 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 business-type activities, and the aggregate discretely presented component unit of the City of Tolar, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Tolar, Texas' basic financial statements and have issued our report thereon dated March 3, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Tolar, Texas' 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 of Tolar, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Tolar, Texas' internal control.

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 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tolar, Texas' 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 is required to be reported under *Government Auditing Standards*.

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.

MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
March 3, 2017

CITY OF TOLAR, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED SEPTEMBER 30, 2016

I. Summary of Auditor's Results:

- a. The type of report issued on the financial statements of the City of Tolar, Texas was an unqualified opinion.
- b. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters required by the GAO's *Government Auditing Standards*.
- c. No instances of noncompliance material to the financial statements of the City of Tolar, Texas were disclosed during the audit.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

- a. No findings required to be reported.

CITY OF TOLAR, TEXAS
SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED SEPTEMBER 30, 2016

PRIOR YEAR

Findings/Noncompliance

None