

CITY OF WOLFFORTH, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2016

CITY OF WOLFFORTH, TEXAS

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CITY OF WOLFFORTH, TEXAS

TABLE OF CONTENTS **September 30, 2016**

Management's Discussion and Analysis	1
Financial Statements:	
Independent Auditor's Report	10
Statement of Net Position	11
Statement of Activities	13
Balance Sheet – Governmental Funds	14
Reconciliation of the Statement of Net Position of Governmental Funds to the Balance Sheet	15
Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	17
Statement of Net Position – Proprietary Funds	18
Statement of Revenues, Expenditures and Changes in Fund Net Position – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21
Notes to the Financial Statements	23
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	50
Schedule of Changes in Net Pension Liability and Related Ratios - TMRS	51
Schedule of Changes in Net Pension Liability and Related Ratios - TESRS	52
Schedule of Contributions - TMRS	53
Notes to Required Supplementary Information	54

CITY OF WOLFFORTH
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016

As management of the City of Wolfforth (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016. This discussion and analysis is designed to provide an objective and easy to read analysis of the City's financial activities based on currently known facts, decisions or conditions. It is intended to provide a broad overview using a short-term and long-term analysis of the City's activities based on information presented in the financial report and fiscal policies that have been adopted by the Council. Specifically, this section is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent year challenges), identify any material deviations from the financial plan (the adopted budget) and identify individual fund issues or concerns. As with other sections of this financial report, the information contained within this MD&A should be considered only as a part of the greater whole. The reader of this statement should take time to read and evaluate all sections of this report, including the notes that are provided in addition to this MD&A.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year ending September 30, 2016 by \$6,908,893 (net position).
- The City's assets and deferred outflows increased by \$1,339,580 during the year while the liabilities increased by \$1,015,938.
- The City's net position increased by \$323,642 for the year.

Overview of the Financial Statements

This annual report consists of two parts - management's discussion and analysis (this section) and the basic financial statements. This discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The two government-wide statements report the City's net position and how it has changed. The *Statement of Net Position* includes all of the City's assets and liabilities. Net position is one way to measure the City's financial health or position. Over time, increases or

CITY OF WOLFFORTH
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016

decreases in the City's net position is an indicator of whether its financial position is improving or deteriorating. The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used vacation leave). Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in governmental fund financial statements.

Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads and streets, sidewalks, etc.) to assess the overall health or financial condition of the City.

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities:

- **Governmental Activities** – Distinguish functions of the City that are principally supported by taxes and intergovernmental revenues. Most of the City's basic services are reported here, including the general administration, police, fire, streets, library, and parks. Property taxes, sales tax and franchise fees finance most of these services.
- **Business-type Activities** – Report functions of the City that are intended to recover all or a significant portion of their costs through user fees and charges. The City's water and sewer system and sanitation solid waste collection are reported here.

All of these activities are collectively referred to in the financial statements as those of the *primary government*.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's two kinds of funds – governmental and proprietary – utilize different accounting approaches.

- **Governmental funds** – The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending.

CITY OF WOLFFORTH
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016

- Essentially the same functions are reported in the governmental funds as in the governmental activities section of the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term effect of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
- The City maintains two governmental funds. Information is presented in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund which is considered to be a major fund. The other governmental fund is the Debt Service Fund.
- Proprietary funds – Services for which the City charges customers a fee generally are reported in proprietary funds. Proprietary fund financial statements, like the government-wide statements, provide both short-term and long-term financial information. The City maintains two types of proprietary funds. The enterprise fund, which is used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The second type is the internal service fund which is an accounting device used to accumulate and allocate costs internally among the City's various functions. The internal service fund is used to account for the health insurance for City employees. Because the internal service fund predominantly benefits governmental rather than business-type functions the fund is included within governmental activities in the government-wide financial statements.
- The City maintains a single individual enterprise fund. The City uses the enterprise fund to account for its water and sewer services and sanitation (solid waste disposal) services.

CITY OF WOLFFORTH
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016

Notes to the Financial Statements

The notes provide disclosures and additional information that is essential to a full understanding of the financial information presented in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information regarding the City's budgetary comparative information for the general fund and pension funding progress. This information follows the notes to the financial statements.

THE CITY AS A WHOLE – Government-wide Financial Analysis

As stated above, the government-wide statements provide information on the City as a whole in a manner similar to businesses. The net position statement demonstrates the differences between the City's assets and liabilities and serves as an indicator of the City's growth or decline in financial position. The statement of activities demonstrates the amount of growth or decline in the City's financial position.

The City's combined net position was \$6.9 million as of September 30, 2016. Analyzing the governmental and business-type activities separately, the business-type activities net position was \$3.1 million. This analysis focuses on the net position (table 1) and changes in general revenues (table 2) and significant expense of the City's governmental and business-type activities.

The largest portion of the City's net position (approximately 77%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. Additionally, a significant portion of the City's net position is restricted for capital improvements or debt service.

CITY OF WOLFFORTH
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016

Table 1
Summary of Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Current and other assets	\$ 1,507,700	\$ 2,032,482	\$ 2,075,516	\$ 1,019,158	\$ 3,583,216	\$ 3,051,640
Capital assets	<u>5,027,075</u>	<u>5,117,622</u>	<u>11,659,685</u>	<u>13,243,085</u>	<u>16,686,760</u>	<u>18,360,707</u>
Total assets	6,534,775	7,150,104	13,735,201	14,262,243	20,269,976	21,412,347
Deferred outflows of resources	<u>120,680</u>	<u>231,681</u>	<u>83,872</u>	<u>170,080</u>	<u>204,552</u>	<u>401,761</u>
Current liabilities	499,221	502,997	1,020,309	1,046,858	1,519,530	1,549,855
Long-term liabilities	<u>2,773,457</u>	<u>3,054,834</u>	<u>9,596,289</u>	<u>10,300,525</u>	<u>12,369,746</u>	<u>13,355,359</u>
Total liabilities	3,272,678	3,557,831	10,616,598	11,347,383	13,889,276	14,905,214
Net position						
Net investment in capital assets	2,674,307	2,657,589	2,836,683	2,622,776	5,510,990	5,280,365
Restricted	281,820	623,156	997,678	97	1,279,498	623,253
Unrestricted	<u>426,650</u>	<u>543,209</u>	<u>(631,886)</u>	<u>462,067</u>	<u>(205,236)</u>	<u>1,005,276</u>
Total net position	<u>\$ 3,382,777</u>	<u>\$ 3,823,954</u>	<u>\$ 3,202,475</u>	<u>\$ 3,084,940</u>	<u>\$ 6,585,252</u>	<u>\$ 6,908,894</u>

Governmental Activities

The City's governmental activities revenues were up approximately \$408,921 (13.4%) over the prior fiscal year. Revenues were up for property taxes, sales tax, and permits. Expenditures were up \$211,584 (7.8%) from the previous year.

Table 2
Governmental Activity Revenues

	<u>2015</u>	<u>2016</u>
Property taxes including P & I	\$ 1,698,305	\$ 1,993,998
Sales tax	316,975	427,882
Fire department revenue	65,612	66,567
EMS revenue	266,707	298,699
Franchise fees	241,485	231,950
Municipal court revenue	106,887	96,287
Permits and licenses	81,911	181,856
Library revenue	11,399	11,328
Park revenue	10,075	10,250
Interest revenue	12,035	19,562
Grant proceeds	100,487	47,089
Other revenues	<u>138,438</u>	<u>73,769</u>
	<u>\$ 3,050,316</u>	<u>\$ 3,459,237</u>

CITY OF WOLFFORTH
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016

Table 3 explains the changes in net position for the City for the years ended September 30, 2015 and 2016. The governmental activities show an increase in net position for the year in the amount of \$441,177 while the business-type activities show a decrease in net position in the amount of \$117,536 for a total net increase of \$323,641.

Table 3
Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Revenues:						
Program revenues						
Charges for services	\$ 341,070	\$ 469,547	\$ 1,904,731	\$ 2,063,398	\$ 2,245,801	\$ 2,532,945
Operating grants and cont	91,932	110,818			91,932	110,818
Capital grants and cont	100,487	33,358			100,487	33,358
General revenues						
Property taxes	1,698,305	1,993,998			1,698,305	1,993,998
Sales tax	316,975	427,882			316,975	427,882
Franchise fees	241,485	231,950			241,485	231,950
Other	260,062	191,684	139,911	170,014	399,973	361,698
Total Revenues	<u>3,050,316</u>	<u>3,459,237</u>	<u>2,044,642</u>	<u>2,233,412</u>	<u>5,094,958</u>	<u>5,692,649</u>
Expenses:						
City government	34,541	62,483			34,541	62,483
Municipal court	61,978	57,880			61,978	57,880
Financial administration	435,503	429,029			435,503	429,029
Building and grounds	208,108	267,527			208,108	267,527
Code enforcement	7,284	2,661			7,284	2,661
Public safety - police depart	964,383	940,800			964,383	940,800
Public safety - fire & EMS	522,951	661,405			522,951	661,405
Miscellaneous public service	21,224	7,550			21,224	7,550
Emergency management	45,316	48,028			45,316	48,028
Public works - street depart	118,841	135,429			118,841	135,429
Park	35,895	54,566			35,895	54,566
Library	156,405	164,553			156,405	164,553
Water, sewer and sanitation			2,009,073	2,246,957	2,009,073	2,246,957
Interest	88,781	80,883	278,256	209,257	367,037	290,140
Total Expenses	<u>2,701,210</u>	<u>2,912,794</u>	<u>2,287,329</u>	<u>2,456,214</u>	<u>4,988,539</u>	<u>5,369,008</u>
Increase (decrease) in net assets before transfers	349,106	546,443	(242,687)	(222,802)	106,419	323,641
Transfers	(350,243)	(105,266)	350,243	105,266	-	-
Increase (decrease) in net position	<u>\$ (1,137)</u>	<u>\$ 441,177</u>	<u>\$ 107,556</u>	<u>\$ (117,536)</u>	<u>\$ 106,419</u>	<u>\$ 323,641</u>

CITY OF WOLFFORTH
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016

The most significant governmental expense for the City is public safety. Public safety expenses are offset by traffic fines, fire call revenue from Lubbock County, EMS subsidy from University Medical Center, and EMS revenue from patients.

Business-type Activities

Revenues of the City's business-type activities were \$2,233,412 for the year ended September 30, 2016. Expenses for the City's business-type activities were \$2,456,214 for the year, resulting in a loss before transfers of \$222,802.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2016 fiscal year, the City had \$18.36 million invested in a broad range of fixed assets (net of accumulated depreciation), including buildings, streets, water and sewer lines and equipment, vehicles, police and fire department equipment.

Table 4 details the investment in capital assets at September 30, 2015 and 2016.

Table 4
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Land	\$ 403,537	\$ 403,537	\$ 486,271	\$ 486,271	\$ 889,808	\$ 889,808
Buildings and improvements	2,735,897	2,629,351	74,246	67,109	2,810,143	2,696,460
Street and infrastructure	881,289	960,731			881,289	960,731
Office furniture, equipment	16,272	30,913			16,272	30,913
Vehicles and equipment	885,499	979,228	96,260	382,152	981,759	1,361,380
Library books and equipment	60,509	69,791			60,509	69,791
Construction in progress	44,071	44,071			44,071	44,071
Water and sewer system			11,002,908	12,307,553	11,002,908	12,307,553
Totals	<u>\$ 5,027,074</u>	<u>\$ 5,117,622</u>	<u>\$ 11,659,685</u>	<u>\$ 13,243,085</u>	<u>\$ 16,686,759</u>	<u>\$ 18,360,707</u>

CITY OF WOLFFORTH
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016

Debt

At year-end, the City had \$13,356,000 in debt outstanding as compared to \$12,361,000 at the end of the prior fiscal year, an increase of \$995,000 or 8.0%. Table 5 indicates the outstanding debt at September 30, 2015 and 2016.

Table 5
Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Certificates of Obligation Series 2006	\$ -	\$ -	\$ 2,090,000	\$ -	\$ 2,090,000	\$ -
General Obligation Refunding Bonds Series 2006	580,000	-	1,605,000		2,185,000	-
Certificates of Obligation Series 2010	1,775,000	1,665,000	-	-	1,775,000	1,665,000
Certificates of Obligation Series 2013	-	-	6,085,000	5,795,000	6,085,000	5,795,000
Tax Notes Series 2013	185,320	149,240	40,680	32,760	226,000	182,000
Tax Notes Series 2015		285,480		263,520	-	549,000
Tax Notes Series 2016				680,000	-	680,000
Tax Notes Series 2016A				380,000	-	380,000
General Obligation Refunding Bonds Series 2015	<u>-</u>	<u>535,000</u>	<u>-</u>	<u>3,570,000</u>	<u>-</u>	<u>4,105,000</u>
Totals	<u>\$ 2,540,320</u>	<u>\$ 2,634,720</u>	<u>\$ 9,820,680</u>	<u>\$ 10,721,280</u>	<u>\$ 12,361,000</u>	<u>\$ 13,356,000</u>

General Fund Budgetary Highlights

The originally adopted budget was amended at the end of the fiscal year to reflect unexpected changes in expenditures that arose during the year. Revenues came in over the budget amount by \$10,984. Expenses were under budget by \$10,795.

CITY OF WOLFFORTH
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2015-2016 budget, tax rate, and fees that will be charged for the business-type activities. The City experienced growth in the tax base during the past year that is reflected in higher property tax revenues.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Darrell Newsom, at the City of Wolfforth, PO Box 36, Wolfforth, Texas 79382.

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Members of the City Council
City of Wolfforth, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Wolfforth, 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. 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.

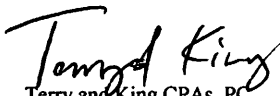
Opinions

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 units, each major fund, and the aggregate remaining fund information of the City of Wolfforth, 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, Schedule of Changes in Net Pension Liability, and Schedule of Contributions on pages 1 through 9 and 50 through 55 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.


Terry and King CPAs, PC
Lubbock, Texas
November 30, 2016

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CITY OF WOLFFORTH, TEXAS
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Wolfforth EDC
Assets				
Cash and cash in bank	\$ 1,254,007.68	\$ 799,808.49	\$ 2,053,816.17	\$ 651,896.20
Cash equivalent - Texpool		1,494.33	1,494.33	
Receivables				
Taxes, net	59,385.95		59,385.95	
Customer accounts, net		195,720.22	195,720.22	
Other governments	62,415.73		62,415.73	
Miscellaneous sources	33,516.08		33,516.08	
City of Wolfforth				18,221.31
Notes receivable				68,617.80
Prepaid insurance		22,038.78	22,038.78	
Restricted Assets				
Cash and cash in bank	623,156.45	96.51	623,252.96	
Capital Assets, nondepreciable				
Land	403,537.07	486,270.40	889,807.47	
Construction in progress	44,070.98		44,070.98	
Capital Assets, depreciable, net				
Buildings and improvements	2,629,351.23	67,108.95	2,696,460.18	
Streets and infrastructure	960,730.76		960,730.76	
Office furniture and equipment	30,912.98		30,912.98	
Equipment and vehicles	979,228.18	382,151.80	1,361,379.98	
Library books and equipment	69,790.73		69,790.73	
Water and sewer system		12,307,553.48	12,307,553.48	
Total Assets	7,150,103.82	14,262,242.96	21,412,346.78	738,735.31
Deferred Outflows of Resources				
Deferred charge on refunding	22,635.37	82,705.24	105,340.61	-
Deferred pension contribution	209,045.36	87,374.73	296,420.09	-
Total Deferred Outflows of Resources	231,680.73	170,079.97	401,760.70	-

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Wolfforth EDC
Liabilities				
Accounts payable	\$ 65,366.58	\$ 71,026.44	\$ 136,393.02	\$
Accounts payable - EDC	18,221.31		18,221.31	
Accrued compensation payable	68,052.39	27,193.73	95,246.12	
Accrued interest payable		39,111.05	39,111.05	
Deposits and utility deposits	12,710.00	123,712.61	136,422.61	
Internal balances	57,116.62	(57,116.62)	-	
Payable from restricted assets				
Accrued interest payable	9,632.15		9,632.15	
Non-current Liabilities				
Unamortized premium on certificates of obligation	7,097.57	117,730.76	124,828.33	
Due within one year:				
Tax notes payable	119,800.00	220,200.00	340,000.00	
Certificates of obligation payable	115,000.00	295,000.00	410,000.00	
Refunding bonds payable	30,000.00	210,000.00	240,000.00	
Due in more than one year:				
Net pension liability	684,914.25	304,445.35	989,359.60	
Tax notes payable	314,920.00	1,136,080.00	1,451,000.00	
Certificates of obligation payable	1,550,000.00	5,500,000.00	7,050,000.00	
Refunding bonds payable	505,000.00	3,360,000.00	3,865,000.00	
Total Liabilities	3,557,830.87	11,347,383.32	14,905,214.19	-
Net Position				
Net investment in capital assets	2,657,589.35	2,622,776.24	5,280,365.59	
Unrestricted	543,207.88	462,066.86	1,005,274.74	725,735.31
Restricted for special purpose				13,000.00
Restricted for capital improvements	174,632.07	96.51	174,728.58	
Restricted for debt service	448,524.38		448,524.38	
Total Net Position	\$ 3,823,953.68	\$ 3,084,939.61	\$ 6,908,893.29	\$ 738,735.31

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

		Program Revenues			Net (Expenses) Revenue and Changes in Net Position			Component
			Operating	Capital	Primary Government			Unit
Functions / Programs	Expenses	Charges for	Grants and	Grants and	Governmental	Business-type	Total	Wolfforth
		Services	Contributions	Contributions	Activities	Activities		EDC
Primary Government:								
Governmental Activities:								
City government	\$ 62,482.57	\$ 181,855.55	\$	\$	\$ 119,372.98	\$	\$ 119,372.98	\$
Municipal court	57,879.75				(57,879.75)		(57,879.75)	
Financial administration	429,029.07				(429,029.07)		(429,029.07)	
Building and grounds	267,526.65				(267,526.65)		(267,526.65)	
Code enforcement	2,660.78				(2,660.78)		(2,660.78)	
Public safety - police department	940,800.49		13,730.87	25,476.50	(901,593.12)		(901,593.12)	
Public safety - fire and EMS	661,404.70	277,441.03	87,825.00		(296,138.67)		(296,138.67)	
Miscellaneous public service	7,550.49				(7,550.49)		(7,550.49)	
Emergency management	48,028.53				(48,028.53)		(48,028.53)	
Public works - street department	135,428.96				(135,428.96)		(135,428.96)	
Park	54,565.84	10,250.00			(44,315.84)		(44,315.84)	
Library	164,552.96		9,262.00	7,881.76	(147,409.20)		(147,409.20)	
Interest on long-term debt	80,882.76				(80,882.76)		(80,882.76)	
Total Governmental Activities	2,912,793.55	469,546.58	110,817.87	33,358.26	(2,299,070.84)	-	(2,299,070.84)	-
Business-type Activities:								
Water, sewer and sanitation	2,456,214.23	2,063,397.81				(392,816.42)	(392,816.42)	
Total Business-type Activities	2,456,214.23	2,063,397.81	-	-	-	(392,816.42)	(392,816.42)	-
Total Primary Government	\$ 5,369,007.78	\$ 2,532,944.39	\$ 110,817.87	\$ 33,358.26	(2,299,070.84)	(392,816.42)	(2,691,887.26)	-
Component Unit:								
Wolfforth Economic Development	\$ 148,636.75	\$ -	\$ -	\$ -	-	-	-	(148,636.75)
Property taxes					1,993,997.97		1,993,997.97	
Sales tax					427,881.82		427,881.82	213,940.99
Franchise fees					231,950.29		231,950.29	
Interest income					19,561.94	3,547.66	23,109.60	6,123.07
Transfers					(105,266.40)	105,266.40	-	
Other					172,122.22	166,466.67	338,588.89	13,000.00
Total general revenues and transfers					2,740,247.84	275,280.73	3,015,528.57	233,064.06
Change in net position					441,177.00	(117,535.69)	323,641.31	84,427.31
Net position, October 1					3,382,776.68	3,202,475.30	6,585,251.98	654,308.00
Net position, September 30					\$ 3,823,953.68	\$ 3,084,939.61	\$ 6,908,893.29	\$ 738,735.31

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2016

	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
Cash and cash in bank	\$ 682,815.45	\$	\$ 682,815.45
Cash in MMA	430,713.32		430,713.32
Cash in MMA - restricted	174,632.07	448,524.38	623,156.45
Receivables (net of allowance for uncollectibles)			
Taxes	45,474.96	13,910.99	59,385.95
Due from other governments	62,415.73		62,415.73
Miscellaneous sources	33,516.08		33,516.08
Total Assets	<u>\$ 1,429,567.61</u>	<u>\$ 462,435.37</u>	<u>\$ 1,892,002.98</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 77,450.97	\$	\$ 77,450.97
Accrued compensation payable	50,192.57		50,192.57
Deposits	12,710.00		12,710.00
Total Liabilities	<u>140,353.54</u>	<u>-</u>	<u>140,353.54</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	44,474.96	13,910.99	58,385.95
Total Deferred Inflows of Resources	<u>44,474.96</u>	<u>13,910.99</u>	<u>58,385.95</u>
Fund Balance			
Restricted for capital projects	174,632.07		174,632.07
Restricted for debt service		448,524.38	448,524.38
Unassigned	1,070,107.04		1,070,107.04
Total Fund Balance	<u>1,244,739.11</u>	<u>448,524.38</u>	<u>1,693,263.49</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,429,567.61</u>	<u>\$ 462,435.37</u>	<u>\$ 1,892,002.98</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
RECONCILIATION OF THE STATEMENT OF NET POSITION
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
AS OF SEPTEMBER 30, 2016

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

Total fund balance per balance sheet	\$ 1,693,263.49
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Capital assets used in the operation of governmental funds are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Construction in progress	44,070.98	
Land	403,537.07	
Buildings and improvements	3,974,780.16	
Streets and infrastructure	4,478,248.37	
Office furniture and equipment	211,923.37	
Vehicles, equipment and machinery	3,579,583.73	
Library books and equipment	276,457.23	
Accumulated depreciation	<u>(7,850,978.98)</u>	
		5,117,621.93

Other long-term assets are not available to pay for current period expenditures and are therefore unavailable in the funds and recognized as revenue in the statement of activities.

Unavailable property taxes	58,385.95
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Governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Deferred charge on refunding	22,635.37	
Unamortized bond refunding premium	<u>(7,097.57)</u>	
		15,537.80

Internal service funds are used by management to charge the cost of certain activities, such as the medical self-insurance program to individual funds.

The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position (net of amount allocated to business-type activities of \$57,116.62).

	77,225.37
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Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	209,045.36
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Long-term liabilities of governmental funds are not due and payable in the current period and therefore, are not reported in the funds. These consist of:

Accrued interest	9,632.15	
Accrued vacation payable	17,859.82	
Net pension liability	684,914.25	
Tax notes payable	434,720.00	
Certificates of obligation payable	1,665,000.00	
Refunding bonds payable	<u>535,000.00</u>	
		<u>(3,347,126.22)</u>

Net position of governmental activities	<u>\$ 3,823,953.68</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 1,351,221.02	\$ 647,898.35	\$ 1,999,119.37
Penalties and interest	25,039.13	11,065.76	36,104.89
Sales tax	427,881.82		427,881.82
Fire department revenue	66,567.00		66,567.00
Permits, licenses and fees	181,855.55		181,855.55
Municipal court revenue	96,287.18		96,287.18
Franchise fees	231,950.29		231,950.29
EMS revenue	210,874.03		210,874.03
EMS subsidy	87,825.00		87,825.00
Library revenue	11,327.79		11,327.79
Park revenue	10,250.00		10,250.00
Interest revenue	17,037.35	1,605.72	18,643.07
Grant proceeds	47,089.13		47,089.13
Rent income	45,330.04		45,330.04
Miscellaneous	26,024.54		26,024.54
Total Revenues	2,836,559.87	660,569.83	3,497,129.70
Expenditures			
Current--			
City government	62,482.57		62,482.57
Municipal court	57,879.75		57,879.75
Financial administration	411,419.17		411,419.17
Building and grounds	157,030.51		157,030.51
Code enforcement	2,660.78		2,660.78
Public safety - police department	828,800.83		828,800.83
Public safety - fire and EMS	537,002.59		537,002.59
Miscellaneous public service	7,550.49		7,550.49
Emergency management	40,593.29		40,593.29
Public works - street department	13,324.39		13,324.39
Park	54,565.84		54,565.84
Library	146,073.70		146,073.70
Capital outlay	562,527.30		562,527.30
Debt service --			
Principal retirement		290,320.00	290,320.00
Interest		80,968.18	80,968.18
Total Expenditures	2,881,911.21	371,288.18	3,253,199.39
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(45,351.34)	289,281.65	243,930.31
Other Financing Sources (Uses)			
Proceeds of long-term debt	927,165.16		927,165.16
Bond refunding	(541,949.82)		(541,949.82)
Transfers in		73,379.49	73,379.49
Transfers out	(159,666.27)	(18,979.62)	(178,645.89)
Total Other Financing Sources and Uses	225,549.07	54,399.87	279,948.94
Net Change in Fund Balance	180,197.73	343,681.52	523,879.25
Fund Balance, October 1	1,064,541.38	104,842.86	1,169,384.24
Fund Balance, September 30	\$ 1,244,739.11	\$ 448,524.38	\$ 1,693,263.49

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

Net change in fund balance -- total governmental funds	\$ 523,879.25
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	562,527.30	
Depreciation expense	<u>(471,980.05)</u>	
		90,547.25

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	(41,226.29)
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The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Issuance of new debt and refunding of debt	(385,215.34)	
Repayment of debt which decreases long-term liabilities in the Statement of Net Position	<u>290,320.00</u>	
		(94,895.34)

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

Accrued interest	1,121.28	
Accrued vacation payable	636.90	
Retirement expense	(41,183.73)	
Amortization of premium on refunding	473.17	
Amortization of deferred amount on refunding	<u>(1,509.03)</u>	
		(40,461.41)

Internal service funds are used by management to charge the costs of health claims to individual funds. The net revenue of the internal service fund is reported with governmental activities (net of amount allocated to business-type activities of \$2,371.70).

	<u>3,333.54</u>
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Change in net position of governmental activities	<u>\$ 441,177.00</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2016

	Business-type Activities -- Enterprise <u>Fund</u>	Governmental Activities -- Internal Service <u>Fund</u>
Assets		
Current Assets		
Cash and cash in bank	\$ 799,808.49	\$ 140,478.91
Cash equivalent - Texpool	1,494.33	
Receivables (net of allowance for uncollectibles)		
Customer accounts	<u>195,720.22</u>	
Total Current Assets	997,023.04	140,478.91
Noncurrent Assets		
Prepaid insurance	22,038.78	
Restricted Assets		
Cash and cash in bank	<u>96.51</u>	
Total Noncurrent Assets	22,135.29	-
Capital Assets		
Land	486,270.40	
Construction in progress	1,550,227.37	
Buildings	257,903.37	
Equipment and vehicles	836,529.52	
Water and sewer system	16,414,416.95	
Accumulated depreciation	<u>(6,302,262.98)</u>	
Total Capital Assets	13,243,084.63	-
Total Non-current Assets	13,265,219.92	-
Total Assets	<u>14,262,242.96</u>	<u>140,478.91</u>
Deferred Outflows of Resources		
Deferred charge on refunding	82,705.24	
Deferred pension contribution	<u>87,374.73</u>	
Total Deferred Outflows of Resources	170,079.97	-

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2016

	Business-type Activities -- Enterprise <u>Fund</u>	Governmental Activities -- Internal Service <u>Fund</u>
Liabilities		
Current Liabilities (payable from current assets)		
Accounts payable	\$ 71,026.44	\$
Accrued compensation payable	27,193.73	
Claims payable		6,136.92
Utility deposits	<u>123,712.61</u>	
Total Current Liabilities (payable from current assets)	221,932.78	6,136.92
Current Liabilities (payable from restricted assets)		
Accrued interest payable	39,111.05	
General obligation refunding bonds, current	210,000.00	
Certificates of obligation	295,000.00	
Tax notes, current	<u>220,200.00</u>	
Total Current Liabilities (payable from restricted assets)	764,311.05	-
Non-current Liabilities		
Net pension liability	304,445.35	
Unamortized premium on certificates of obligation	117,730.76	
Tax notes, non-current	1,136,080.00	
Certificates of obligation payable, non-current	5,500,000.00	
General obligation refunding bonds, non-current	<u>3,360,000.00</u>	
Total Non-current Liabilities	<u>10,418,256.11</u>	-
Total Liabilities	11,404,499.94	6,136.92
Net Position		
Net investment in capital assets	2,622,776.24	
Restricted for capital improvements	96.51	
Unrestricted	<u>404,950.24</u>	<u>134,341.99</u>
Total Net Position	<u>\$ 3,027,822.99</u>	<u>\$ 134,341.99</u>
Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service fund and the enterprise fund over time	<u>57,116.62</u>	
Net position of business-type activities	<u>\$ 3,084,939.61</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Business-type Activities -- Enterprise <u>Fund</u>	Governmental Activities -- Internal Service <u>Fund</u>
Revenues		
Water	\$ 1,069,942.07	\$
Water treatment / EDR fee	84,865.28	
Sewer	380,750.61	
Sanitation	427,485.19	
Penalty revenue	79,354.66	
Water and sewer taps	21,000.00	
Rent income	66,158.96	
Charges for insurance		195,838.37
Miscellaneous	<u>97,936.01</u>	
Total Operating Revenues	2,227,492.78	195,838.37
Operating Expenses		
Salaries and benefits	558,415.54	
Supplies	97,255.66	
Purchased and contracted services	268,591.40	
Operating expense	444,283.03	
Insurance premiums and claims paid		191,052.00
Depreciation	<u>747,747.94</u>	
Total Operating Expenses	<u>2,116,293.57</u>	<u>191,052.00</u>
Operating Income	111,199.21	4,786.37
Non-operating Revenue (Expense)		
Interest income	3,547.66	918.87
Interest expense	(209,256.68)	
Bond issuance costs	<u>(130,663.98)</u>	
Total Non-operating Revenue (Expense)	<u>(336,373.00)</u>	<u>918.87</u>
Income Before Operating Transfers	(225,173.79)	5,705.24
Operating transfers in	105,266.40	
Operating transfers out		
Change in Net Position	<u>(119,907.39)</u>	<u>5,705.24</u>
Total Net Position, October 1	<u>3,147,730.38</u>	<u>128,636.75</u>
Total Net Position, September 30	<u>\$ 3,027,822.99</u>	<u>\$ 134,341.99</u>
Reconciliation to government-wide statement of net position:		
Change in net position	\$ (119,907.39)	
Adjustment to reflect consolidation of internal service fund activities related to the enterprise fund	<u>2,371.70</u>	
Change in net position of business-type activities	<u>\$ (117,535.69)</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Business-type Activities -- Enterprise <u>Fund</u>	Governmental Activities -- Internal Service <u>Fund</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 2,225,025.75	\$
Cash received for premiums and claims	-	195,838.37
Cash payments to suppliers	(1,124,644.53)	(191,136.16)
Cash payments to employees	(549,269.05)	
Net Cash Provided by Operating Activities	<u>551,112.17</u>	<u>4,702.21</u>
 Cash Flows From Non-capital Financing Activities		
Operating transfers in	105,266.40	
Operating transfers out		
Net Cash Provided By (Used For) Non-capital Financing Activities	<u>105,266.40</u>	<u>-</u>
 Cash Flows From Capital and Related Financing Activities		
Proceeds of long-term debt	1,496,280.00	
Debt refunding	48,956.66	
Acquisition and construction of capital assets	(2,307,687.98)	
Repayment of long-term debt	(595,680.00)	
Debt issuance costs	(130,663.98)	
Interest payment long-term debt	(239,933.13)	
Net Cash Provided By (Used For) Capital and Related Financing Activities	<u>(1,728,728.43)</u>	<u>-</u>
 Cash Flows From Investing Activities		
Interest received	7,986.31	918.87
Net Cash Provided By Investing Activities	<u>7,986.31</u>	<u>918.87</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	(1,064,363.55)	5,621.08
Cash and cash equivalents, October 1	1,865,762.88	134,857.83
Cash and cash equivalents, September 30	<u>\$ 801,399.33</u>	<u>\$ 140,478.91</u>
 Cash and cash in bank	\$ 799,808.49	\$ 140,478.91
Restricted cash in bank	96.51	
Cash equivalent - Texpool	1,494.33	
Total cash and cash equivalents	<u>\$ 801,399.33</u>	<u>\$ 140,478.91</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Business-type Activities -- Enterprise <u>Fund</u>	Governmental Activities -- Internal Service <u>Fund</u>
Reconciliation of operating income to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 111,199.21	\$ 4,786.37
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	747,747.94	
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable	(9,352.00)	
(Increase) decrease in prepaid insurance	1,345.88	
(Increase) decrease in deferred pension contribution	(48,799.63)	
(Increase) decrease in deferred charge on refunding	(40,407.67)	
Increase (decrease) in accounts payable	(291,224.63)	(84.16)
Increase (decrease) in accrued expenses	11,741.79	
Increase (decrease) in net pension liability	61,976.31	
Increase (decrease) in meter deposits	6,884.97	
Net cash provided by operating activities	<u>\$ 551,112.17</u>	<u>\$ 4,702.21</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

1. Summary of Significant Accounting Policies

The financial statements of the City of Wolfforth, Texas (the City) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The significant accounting and reporting policies and practices used by the City are described below.

A. Financial Reporting Entity

The City of Wolfforth, Texas was established in 1916 under the Constitution of the State of Texas (Home Rule Amendment). The City is a municipal corporation governed by an elected mayor and a five-member council form of government. The City provides the following services: Public Safety (Police, Fire, and Ambulance), Highways and Streets, Sanitation, Public Improvements (Water and Sewer Systems), Planning and Zoning, and General Administrative Services. Volunteers staff the fire department.

The City's financial statements include the accounts of all City operations. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Component units are organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organizations to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Wolfforth has a single component unit, the Wolfforth Economic Development Corporation (EDC). The EDC was formed to provide economic growth in the City. The governing board of the EDC is appointed by the City Council. The City has assigned one-third of its sales tax revenues to the EDC for future economic development of the City. The EDC is a discretely presented component unit which does not issue separate financial statements.

B. Government-wide and Fund Financial Statements

Financial information of the City is presented as follows:

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

- *Management's Discussion and Analysis* introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- *Basic Financial Statements:* The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities.
- *Government-wide financial statements* consist of a statement of net position and a statement of activities. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. For the most part, the effect of Interfund activity has been removed from these statements.

These statements report all of the non-fiduciary activities of the government. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues where as business-type activities are normally supported by fees and charges from services and are usually intended by management to be financially self-sustaining.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Revenues that are not classified as program revenues, including all taxes and other items, are presented as general revenues.

- *Fund Financial Statements* consist of a series of statements focusing on information about the City's major governmental and enterprise funds. Separate financial statements are presented for the governmental and enterprise funds.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model as defined by GASB Statement No. 34 the focus is either the City as a whole or major individual funds (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Indirect expenses are allocated based on the annual cost allocation plan. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property taxes, sales tax, franchise taxes, intergovernmental revenues, interest income, etc.).

Separate fund based financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

financial statements. The major governmental funds are the general fund and the debt service fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The City has elected to present the debt service fund as a major fund. The nonmajor funds are combined in a column in the fund financial statements, if applicable.

The City has established an internal service fund for employee health insurance. The purpose of an internal service fund is "to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis. The City's policy is to partially self-fund the health insurance program offered to City employees. The costs of the program are accounted for in the internal service fund and these services are billed to the funds benefiting from the service. The amounts billed to each fund are based on estimates of future claims and on the number of active employees who participate in the City health insurance program. If the fund incurs a deficit that is not expected to be eliminated over a reasonable period of time, additional premiums will be billed to the participating funds to cover the full cost of claims recognized as expenses. The amounts billed to the funds and the expense recognized by the internal service fund should be approximately the same over a reasonable period of time. The revenue of the internal service fund comes from the City's contribution for active employees and from active employees' contributions for dependent coverage through payroll deductions.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements have been met.

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

Ad valorem, franchise and sales tax revenues in the General Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirement of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following major funds are used by the City:

1. Governmental Funds:

The following is a description of the Governmental Funds of the City:

- a. General Fund accounts for several of the City's primary services (Public Safety, Public Works, General Administration, etc.) and is the primary operating unit of the City.
- b. Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).
- c. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

2. Proprietary Funds:

The following is a description of the major Proprietary Funds of the City:

- a. The Enterprise Fund accounts for the operation of the City's water and sewer utility and trash collection and disposal. Activities of the fund include administration, operation and maintenance of the water and sewer system, solid waste pickup as well as billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.
- b. The Internal Service Fund was established to account for the resources utilized to provide limited self-insurance for the employee's health insurance. The fund receives monies from the general and enterprise funds to pay claims and premiums for the benefit of the employees.

3. Non-Current Governmental Assets/Liabilities:

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Position.

D. Encumbrances

The City does not use an encumbrance system of accounting.

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

E. Cash, Cash Equivalents and Investments

The City maintains pooled cash accounts that are shared by the General Fund, Debt Service Fund, and the Enterprise Fund. Each fund's portion of this pooled cash is allocated through its cash and cash in bank accounts on the balance sheet or statement of net position. The funds pool their operating cash for the purpose of cash management and to increase income through combined investment activities. In addition, non-pooled cash is separately held and reflected in each fund's balance sheet when applicable.

The cash and cash equivalents reflected in the statement of cash flows for the Proprietary Funds are made up of cash on hand, cash in the City's depository bank, and certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition. Each fund whose monies are deposited in the pooled cash accounts has an equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. Cash deposits and investments are reported at carrying amount (cost), which equals fair value, in accordance with GASB Statement No. 31. The Texas Public Funds Investment Act governs items such as investment strategies and policies, training for investment officers, reporting requirements, and types of investments allowed. See Note 2.

F. Prepaid Items

Prepaid balances, if applicable, are for payments made by the City in the current year to provide services occurring in subsequent fiscal years.

G. Inventories

Inventories in Governmental and Proprietary Funds consist of expendable supplies. These amounts are not significant and thus no provision has been made for these amounts in the financial statements.

H. Interfund Receivables and Payables

Interfund receivables and payables are eliminated at the end of the fiscal year by reclassifying them as operating transfers if management does not expect the receiving fund to be able to repay the payable within a reasonable time. These transfers are treated as operating transfers and are included in the results of operations of both Governmental and Proprietary Funds.

I. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed fixed assets are carried at estimated fair market value on the date donated. Public domain (infrastructure) fixed assets consisting of roads, streets and sidewalks have been recorded at estimated historical cost. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Assets capitalized have an original cost of \$2,500 or more and a life expectancy of over three years. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and land improvements	7 – 40 years
Streets	25 years
Water and sewer system	5 – 50 years
Vehicles, machinery and equipment	5 – 15 years

J. Compensated Absences

All regular full-time employees of the City are eligible to accrue paid vacation leave. After the completion of the first year of employment 80 hours of vacation leave are credited to the employee's account. Full-time employees continue to earn vacation leave at the rate of 80 hours per year through the first ten years of service. After 10

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

years of service the employee will earn 120 hours of vacation leave per year. Certified full-time police officers receive 84 hours of vacation leave annually. Upon separation of service from the City employees are paid for any unused vacation leave in his or her account.

Regular full-time employees are also entitled to paid sick leave. Full-time employees accrue sick leave at the rate of two hours per bi-weekly pay period. Sick leave not used by employees during the year in which it accrues, accumulates and is available for use in succeeding years up to a maximum of 720 hours. Annually, on the employee's anniversary date, any sick leave balance in excess of the maximum is reduced to the maximum without compensation. Employees who have in excess of 208 hours of accumulated sick leave on December 31 of each year, may, at their option, sell back to the City those hours in excess of 208 hours of accumulated sick leave not to exceed 52 hours each year. Unused sick leave is canceled upon termination of employment without compensation to the employee. Accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

K. Restricted Assets

Certain resources of the City have been set aside for the repayment of debt or for capital improvements and are classified as restricted on the balance sheet or statement of net position. The City records these restrictions to indicate that a portion of cash and fund equity is legally segregated for a specific future use. At September 30, 2016 the governmental funds had \$448,524.38 restricted for debt service and \$174,632.07 restricted for capital improvements while the enterprise fund had \$96.51 restricted for capital improvement projects. When an expense is incurred for which both restricted and unrestricted net position are available it is the City's policy to first apply restricted resources to the expense.

L. Bond Issuance Costs

Bond and certificate of obligation issuance costs are expensed at the time of the bond or certificate of obligation issue with the exception of the cost of insurance on the issue. Insurance cost, if any, is recorded as prepaid insurance and amortized over the term of the respective bonds and certificates of obligation using the straight-line method.

M. Capitalized Interest

In conformity with Financial Accounting Standards No. 34, "Capitalization of Interest Cost," the City capitalized interest costs for business-type activities only, net of related interest earned, from the date of borrowing until the projects acquired with those funds are ready for their intended use. For the fiscal year ended September 30, 2016, the City had \$26,891.38 in capitalized interest costs.

N. Use of Estimates

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

O. Reclassifications

Certain reclassifications have been made to fiscal year 2015 amounts to conform to the fiscal year 2016 presentation.

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

P. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period when the amounts become available.

Q. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance – Generally, fund balance represents the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources under the current financial resources management focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent. Fund balances are classified as follows:

Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by the City Council. Approval of a resolution after a formal vote of the City Council is required to establish a commitment of fund balance. Similarly, the City Council may only modify or rescind the commitment by formal vote and adoption of a subsequent resolution.

Assigned – Fund balances are reported as assigned when amounts are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Council, through City Ordinance, has expressly delegated to the City Administrator the authority to assign funds for particular purposes or through adoption or amendment of the budget as intended for a specific purpose.

Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund.

Flow Assumptions – When both restricted and unrestricted fund balances are available for use, it is the City’s policy to use restricted fund balance first, then unrestricted fund balance as needed. For unrestricted amounts of fund balance, it is the City’s policy to use fund balance in the following order: (1) Committed, (2) Assigned, (3) Unassigned.

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

Net Position – Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, in reporting which utilizes the economic resources measurement focus. In the government-wide financial statements, net position is classified in the following categories:

Net investment in capital assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduces this category.

Restricted net position - This category represents external restrictions imposed either: 1) by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This category represents the net position of the City which are not restricted for any project or other purpose.

Flow Assumptions – The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Proprietary fund equity is classified the same as in the government-wide statements.

R. Liability for Incurred Claims

The liability for incurred claims represents estimated claims incurred but unpaid for the employee's group medical insurance at September 30, 2016. The estimate includes claims reported as well as claims incurred but not reported at year end. The City bases its estimate on prior claims history.

S. 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.

The City also provides for the volunteer firefighters pension which is administered through the Texas Emergency Services Retirement System (TESRS) and is accounted for in a similar manner.

2. **Deposits and Investments**

The City's cash and investments can be subject to six types of risk which are examined in more detail as follows:

CUSTODIAL CREDIT RISK OF BANK DEPOSITS – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of the State of Texas and its agencies that have a market value of not less than the deposit amounts to prevent loss of public funds. At year-end, the carrying amount of the City's deposits was \$2,676,869.13 and the respective bank balances totaled \$2,853,930.59. The City's investments usually consist of certificates of deposit held by the City's depository and an investment in Texpool. The City's deposits and certificates of deposit were fully insured, up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC), or collateralized by securities held by the pledging financial institution's agent as required by the state statutes at September 30, 2016. The pledged securities had a market value at September 30, 2016 of \$5,897,110.67.

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

CUSTODIAL CREDIT RISK OF INVESTMENTS – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's minimizes this risk by investing in certificates of deposit which are fully insured or collateralized and the Texpool investment which is rated AAAM by Standard & Poors.

INTEREST RATE RISK – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's certificates of deposit are not subject to interest rate risk and the Texpool investment minimizes this risk by investing in securities with short-term maturities.

CREDIT RISK – Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation. The City's investment policy minimizes credit risk by limiting investments to the safest types of securities.

CONCENTRATION OF CREDIT RISK – Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. This type of risk is minimized by investing in certificates of deposit and the highly rated Texpool.

FOREIGN CURRENCY RISK – This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk because none of the investments were denominated in foreign currencies.

Investments - Texas statutes authorize the types of investments allowable by the City. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, fully collateralized certificates of deposit, repurchase agreements, commercial paper, and direct obligations of cities within the State of Texas. The City is also authorized to invest in direct obligations of the State of Texas or its agencies, obligations of states, agencies, counties, and other political subdivisions, reverse repurchase agreements, prime domestic bankers' acceptances, money market funds, and government pools.

The City pools cash resources of its various funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

Amounts invested in the TexPool are recorded at cost which is also the fair market value. Government Pool investments are not categorized, in accordance with GASB No. 3, because they are not evidenced by securities that exist in physical or book entry form. At September 30, 2016 the City had \$1,494.33 invested in Texpool.

3. Property Taxes

Property taxes are levied each October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by law. In Texas, central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, legal action. The Lubbock Central Appraisal District establishes appraised values at 100% of estimated fair market value for the City. The 2015 certified tax roll for the City was \$260,155,785 as adjusted.

Taxes are due on October 1 immediately following the levy date and are delinquent after the following January 31. Tax liens are automatic on January 1 of each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (February 1). The 2015 tax rate was \$0.77729 per \$100 valuation. Current tax collections for the year ended September 30, 2016 were 98.60% of the tax levy.

Property taxes are recorded as receivables and unavailable tax revenue at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue.

4. Interfund Transfers

Interfund transfers during the year ended September 30, 2016 were as follows:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Governmental Funds:		
General Fund	\$	\$ 159,666.27
Debt Service Fund	73,379.49	18,979.62
Proprietary Funds:		
Enterprise Fund	105,266.40	
Internal Service Fund		
	<u>\$ 178,645.89</u>	<u>\$ 178,645.89</u>

Interfund transfers are made between funds to cover expenses in the receiving fund.

5. Debt

At September 30, 2016 outstanding debt consisted of the following individual issues:

Business-type Activities

Series 2013 Certificates of Obligation issued at variable interest rates ranging from 1% to 3%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2016 was \$5,795,000 of which \$295,000 is due within one year.

Series 2013 Tax Notes issued at an interest rate of 1.69%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2016 was \$32,760 of which \$7,920 is due within one year.

Series 2015 General Obligation Refunding Bonds issued at variable interest rates ranging from 2.00% to 3.00%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2016 was \$3,570,000 of which \$210,000 is due within one year.

Series 2015 Tax Notes issued at an interest rate of 1.80%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2016 was \$263,520 of which \$77,280 is due within one year.

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

Series 2016 Tax Notes issued at an interest rate of 1.90%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2016 was \$680,000 of which \$86,000 is due within one year.

Series 2016A Tax Notes issued at an interest rate of 1.64%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2016 was \$380,000 of which \$49,000 is due within one year.

Governmental Activities

Series 2010 Certificates of Obligation issued at variable interest rates ranging from 2.8% to 4.15%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2016 was \$1,665,000 of which \$115,000 is due within one year.

Series 2013 Tax Notes issued at an interest rate of 1.69%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2016 was \$149,240 of which \$36,080 is due within one year.

Series 2015 General Obligation Refunding Bonds issued at variable interest rates ranging from 2.00% to 3.00%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2016 was \$535,000 of which \$30,000 is due within one year.

Series 2015 Tax Notes issued at an interest rate of 1.80%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2016 was \$285,480 of which \$83,720 is due within one year.

During the year ended September 30, 2006, the City issued \$3,305,000 in general obligation refunding bonds with interest rates ranging from 3.5% to 4.25% to advance refund \$1,640,000 Series 2000 Certificates of Obligation and \$1,500,000 Series 2004 Certificates of Obligation. The interest rates for the Series 2000 Certificates of Obligation ranged from 5.35% to 7.375%. The interest rates for the Series 2004 Certificates of Obligation ranged from 3.9% to 5.75%. The net proceeds of \$3,233,096.46 (after payment of \$167,319.70 in underwriting fees, insurance and other issuance costs) of the 2006 issue (which included \$94,416.16 from the City) were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded certificates of obligation. As a result, the refunded certificates of obligation in the amount of \$1,510,000 which are outstanding at September 30, 2016 are considered to be defeased, and the liability for those certificates have been removed from the statement of net position. The City advance refunded the certificates of obligation to reduce its total debt service payments for the years through 2024. The debt service will be greater for the last 5 years of the refunding issue beginning in 2021. The net effect will cost the City \$243,624.37 however the City obtained an economic gain (i.e., difference between the present values of the debt service payments on the old and new debt) of \$99,458.40.

During the year ended September 30, 2016, the City issued \$4,190,000 in general obligation refunding bonds with interest rates ranging from 2.00% to 3.00% to advance refund \$2,090,000 Series 2006 Certificates of Obligation and \$1,990,000 Series 2006 General Obligation Refunding Bonds. The interest rates for the Series 2006 Certificates of Obligation ranged from 4.30% to 4.50%. The interest rates for the Series 2006 General Obligation Refunding Bonds ranged from 3.75% to 4.25%. The net proceeds of \$4,166,550.00 were transferred to an escrow fund to provide for all future debt service payments of the Series 2006 Certificates of Obligation and the Series 2006 General Obligation Refunding Bonds. As a result, the 2006 refunded certificates of obligation and general obligation refunding bonds in the amount of \$4,080,000 which are outstanding at September 30, 2016 are considered to be defeased, and the liability for those issues have been removed from the statement of net position. The City advance refunded these issues to reduce its total debt service payments for the years through 2031. The City will realized savings in the amount of \$626,931 through 2031 as a result of this refunding. The net present value of the savings is \$509,908.

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

Interest Expense

Interest expense in the enterprise fund was \$209,256.68. Interest expense in the governmental activities was \$80,882.76.

Revenue Bonds

Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water and sewer system. The Revenue Bonds are collateralized by the revenue of the water and sewer system. The bond ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond funds. Remaining revenues may then be used for any lawful purpose. The City is in compliance with all significant financial requirements as of September 30, 2016.

General Obligation Bonds

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity.

Certain General Obligation Certificates of Obligation are to be repaid by revenues of the Enterprise Fund. Enterprise Fund General Obligation Certificates of Obligation are secured both by a pledge of ad valorem taxes levied on all taxable property within the City and by a lien on and pledge of revenues to be generated by the Enterprise Fund.

Changes in Outstanding Debt

Transactions for the year ended September 30, 2016 are summarized as follows:

	Balance 10/1/2015	Additions	Retirements	Balance 9/30/2016	Due Within One Year
<u>Business-type Activities</u>					
Certificates of Obligation	\$ 8,175,000.00	\$	\$ (2,380,000.00)	\$ 5,795,000.00	\$ 295,000.00
Refunding Bonds	1,605,000.00	3,645,000.00	(1,680,000.00)	3,570,000.00	210,000.00
Tax Notes	40,680.00	1,401,280.00	(85,680.00)	1,356,280.00	220,200.00
Subtotal	9,820,680.00	5,046,280.00	(4,145,680.00)	10,721,280.00	725,200.00
Net premium on issuance	74,552.48	50,633.68	(7,455.40)	117,730.76	7,455.40
Total Business-Type Activities	<u>\$ 9,895,232.48</u>	<u>\$ 5,096,913.68</u>	<u>\$ (4,153,135.40)</u>	<u>\$ 10,839,010.76</u>	<u>\$ 732,655.40</u>
<u>Governmental Activities</u>					
Certificates of Obligation	\$ 1,775,000.00	\$	\$ (110,000.00)	\$ 1,665,000.00	\$ 115,000.00
Refunding Bonds	580,000.00	545,000.00	(590,000.00)	535,000.00	30,000.00
Tax Notes	185,320.00	369,720.00	(120,320.00)	434,720.00	119,800.00
Subtotal	2,540,320.00	914,720.00	(820,320.00)	2,634,720.00	264,800.00
Net premium on issuance		7,570.74	(473.17)	7,097.57	473.17
Total Governmental Activities	<u>\$ 2,540,320.00</u>	<u>\$ 922,290.74</u>	<u>\$ (820,793.17)</u>	<u>\$ 2,641,817.57</u>	<u>\$ 265,273.17</u>

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities of bonds, certificates of obligation, notes and capital leases payable for the years subsequent to September 30, 2016 are as follows:

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

Year Ending September 30	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2017	\$ 264,800.00	\$ 74,076.64	\$ 725,200.00	\$ 243,815.43	\$ 1,307,892.07
2018	225,900.00	68,381.13	696,100.00	224,074.12	1,214,455.25
2019	237,240.00	62,798.06	704,760.00	213,031.84	1,217,829.90
2020	244,100.00	56,925.08	723,900.00	200,976.17	1,225,901.25
2021	206,080.00	51,203.80	718,920.00	188,423.60	1,164,627.40
2022-2026	786,600.00	174,951.94	3,157,400.00	748,807.46	4,867,759.40
2027-2031	455,000.00	87,118.11	3,175,000.00	364,074.39	4,081,192.50
2032-2033	215,000.00	4,461.25	820,000.00	24,750.00	1,064,211.25
	<u>\$ 2,634,720.00</u>	<u>\$ 579,916.01</u>	<u>\$ 10,721,280.00</u>	<u>\$ 2,207,953.01</u>	<u>\$ 16,143,869.02</u>

The general and debt service funds have been used in the past to liquidate long-term liabilities, including compensated absences.

6. Individual Fund Disclosures

The water and sewer system of the City services approximately 1,631 properties. During the year ended September 30, 2016 the City sold approximately 157,429,000 gallons of water.

The City provides solid waste pickup and disposal services for its citizens with revenues and expenses recorded in the enterprise fund. The City contracts with a private company for waste collection and disposal. This waste is disposed of at the City of Lubbock's regional landfill or a landfill owned by a private company where the City is charged a fee based on weight to dispose of its waste. These fees will cover the City's share of any post-closure expenses and thus no provision is made in the financial statements for future costs associated with the landfill. Citizens are charged a monthly fee to cover the costs of these services.

7. Defined Benefit Pension Plans

A. Texas Municipal Retirement System

Plan Description

The City of Wolfforth participates as one of 866 plans in the non-traditional, 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 public employee 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 operates on a calendar year with December 31, 2015 being the latest data available. TMRS issues a publically available comprehensive annual financial report (CAFR) that can obtained at www.tmrs.com.

All eligible employees (full-time and employees who work in excess of 1,000 hours per year) 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 governing state statutes governing TMRS.

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

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 (PLSD) in an amount equal to 12, 24, or 36 monthly payments which cannot exceed 75% of the total member deposits and interest.

	<u>Plan Year 2015</u>	<u>Plan Year 2016</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (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, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Employees covered by benefit terms

At the December 31, 2014 and 2015 valuation and measurement dates, the following employees were covered by the benefit terms:

	12/31/2014	12/31/2015
Inactive employees or beneficiaries currently receiving benefits	5	5
Inactive employees entitled to but not yet receiving benefits	11	14
Active employees	<u>25</u>	<u>25</u>
Total	41	44

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 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 Wolfforth were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Wolfforth were 10.85% and 11.05% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$129,826.37, 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 valuations 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 plan investment expense, including inflation

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%.

For Cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, 100% for employers with 11 to 15 members, and 115% for employers with less than 100 members. There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%). For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than the 20 member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use $(25 - (20 - 8)) = 13$ year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be $25 - (20 - 1) = 6$ years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years.

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 male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate 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 WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100.00%	

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.

Change in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/14	\$ 3,003,301	\$ 2,269,801	\$ 733,500
Changes for the year:			
Service cost	126,524		126,524
Interest	211,984		211,984
Change of benefit terms			-
Difference between expected and actual experience	42,068		42,068
Changes of assumptions	(11,327)		(11,327)
Contributions - employer		119,684	(119,684)
Contributions - employee		55,154	(55,154)
Net investment income		3,350	(3,350)
Benefit payments, including refunds of employee contributions	(76,433)	(76,433)	-
Administrative expense		(2,040)	2,040
Other changes		(101)	101
Net changes	<u>292,816</u>	<u>99,614</u>	<u>193,202</u>
Balance at 12/31/15	<u>\$ 3,296,117</u>	<u>\$ 2,369,415</u>	<u>\$ 926,702</u>

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

The following presents the net position 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 (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75)
City's net pension liability	<u>\$ 1,418,161</u>	<u>\$ 926,702</u>	<u>\$ 525,134</u>

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

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 \$170,790.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 45,581.00	
Changes in actuarial assumptions	(9,397.00)	
Difference between projected and actual investment earnings	140,563.00	
Contributions subsequent to the measure date December 31, 2015	94,663.55	
Total	<u>\$ 271,410.55</u>	<u>\$ -</u>

\$94,663.55 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 Dec 31:	
2016	\$ 44,181.00
2017	44,181.00
2018	44,181.00
2019	38,804.00
2020	5,400.00
Thereafter	-
Total	<u>\$ 176,747.00</u>

B. Supplemental Death Benefits Plan

Plan Description

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. Although it has no plans to do so, 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.

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

The following summarizes the SDBF coverage provided by the City for the prior two years:

	<u>Plan Year 2015</u>	<u>Plan Year 2016</u>
Active Employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

Contributions are made monthly to the SDBF based on the covered payroll of the City. The City's contribution to the TMRS SDBF for the years ended September 30, 2016, 2015 and 2014 were \$1,739, \$1,498, and \$1,313, respectfully, which equaled the required contributions each year. The rate was 0.14% for October through December 2015 and 0.15% for January through September 2016 of the covered payroll for the period covered by this report.

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	0.11%	0.11%	100%
2013	0.12%	0.12%	100%
2014	0.13%	0.13%	100%
2015	0.14%	0.14%	100%
2016	0.15%	0.15%	100%

C. Texas Emergency Services Retirement System

The City provides volunteer firefighters with pension coverage through the Texas Emergency Services Retirement System (TESRS).

Plan Description

The TESRS administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. The System is governed by a nine member board of trustees, with at least five of the trustees being active members of the pension system. The System issues a stand-alone financial report that is available to the public at www.tesrs.org. The System operates on a fiscal year ending August 31 with the fiscal year ended August 31, 2015 being the latest available financial data. At August 31, 2015, there were 197 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department. On August 31, 2015, the pension system membership consisted of:

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

	<u>System</u>	<u>City of Wolfforth</u>
Retirees and beneficiaries currently receiving benefits	2,991	1
Terminated members entitled to benefits but not yet receiving them	2,211	-
Active participants (vested and nonvested)	4,016	24

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payment to a member's surviving spouse and dependent children.

Funding Policy

Contributions are made by the City for the emergency services personnel. No contributions are required from the individuals who are members of the System, nor are they allowed. The City is required to make contributions for each month a member performs emergency services (this minimum contribution is \$36 per member and the City may make a higher monthly contribution for its volunteers). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impact future retiree annuities.

The State of Texas is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2015, total contributions (dues, prior service, and interest on prior service financing) of \$3,515,546 were paid into TESRS by the political subdivisions served by the

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

member volunteer emergency services personnel. The State appropriated \$1,637,308 for the fiscal year ending August 31, 2015. The City contributed \$13,500 to the System during its fiscal year ending September 30, 2016.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed below.

The most recently completed biennial actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$625,000 each year to pay for part of the System's administrative expenses.

Net Pension Liability

The System's net pension liability was measured as of August 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2014 and rolled forward to August 31, 2015.

	<u>System</u>	<u>City of Wolfforth</u>
Total pension liability	\$ 115,520,991	\$ 271,174
Plan fiduciary net position	88,828,460	208,516
Net pension liability	<u>\$ 26,692,531</u>	<u>\$ 62,658</u>
 Fiduciary net position as a percentage of the total pension liability	 76.89%	 76.89%

Actuarial Assumptions

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5% per year
Overall payroll growth	N/A
Investment Rate of Return	7.75% net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components 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 (currently 4.45%) and by adding expected inflation (3.5%). In addition, the final 7.75% assumption was selected by "rounding down" and thereby reflects a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Equities		
Large cap domestic	32%	5.2%
Small cap domestic	10%	5.8%
Developed international	21%	5.5%
Emerging markets	6%	5.4%
Master limited partnership	5%	7.1%
Fixed income		
Domestic	21%	1.4%
International	5%	1.6%
Cash	0%	0.0%
Total	100%	
Weighted average		4.45%

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2014 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. That UAAL was based on an actuarial value of assets that was \$7.9 million less than the plan fiduciary net position as of August 31, 2014. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. 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.

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

The following presents the net pension liability of the System, calculated using the discount rate of 7.75%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease in Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase in Discount Rate (8.75%)
System's net pension liability	\$ 46,704,033	\$ 26,692,531	\$ 15,160,925
City's net pension liability	\$ 109,633	\$ 62,658	\$ 35,589

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TESRS annual financial report. That report may be obtained on the internet at www.tesrs.org.

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

\$13,500.00 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:

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

Year ended Aug 31:

2016	\$ 2,205.53
2017	2,205.53
2018	2,205.53
2019	4,892.96
2020	-
Thereafter	-
Total	<u>\$ 11,509.55</u>

Change in Net Pension Liability

The change in net pension liability is as follows:

	<u>Fiscal Year Ending 08/31/2014</u>		<u>Fiscal Year Ending 08/31/2015</u>	
	System	City of Wolfforth (allocation .26%)	System	City of Wolfforth (allocation .23474%)
Total Pension Liability				
Service cost	\$ 1,827,592	\$ 4,751	\$ 1,694,230	\$ 3,977
Interest	8,051,287	20,933	8,470,723	19,884
Changes of benefit terms				
Difference between expected and actual experience				
Assumption changes				
Adjustment due to change in percentage of system				(27,749)
Benefit payments	(4,168,134)	(10,837)	(4,498,761)	(10,560)
Net change in total pension liability	5,710,745	14,847	5,666,192	(14,448)
Total pension liability - beginning	104,144,054	270,775	109,854,799	285,622
Total pension liability - ending	\$ 109,854,799	\$ 285,622	\$ 115,520,991	\$ 271,174
Plan Fiduciary Net Position				
Contributions for members	\$ 4,176,659	\$ 10,859	\$ 3,515,546	\$ 8,252
Contributions by the State	1,530,343	3,979	1,637,308	3,843
Net investment income	11,908,321	30,962	(3,292,889)	(7,730)
Benefit payments	(4,168,134)	(10,837)	(4,498,761)	(10,560)
Administrative expense	(165,669)	(431)	(215,900)	(507)
Other				(23,159)
Net change in fiduciary net position	13,281,520	34,532	(2,854,696)	(29,860)
Plan fiduciary net position - beginning	78,401,636	203,844	91,683,156	238,376
Plan fiduciary net position - ending	\$ 91,683,156	\$ 238,376	\$ 88,828,460	\$ 208,516
 Net pension liability - ending	 \$ 18,171,643	 \$ 47,246	 \$ 26,692,531	 \$ 62,658
 Plan fiduciary net position as a percentage of the total pension liability	 83.5%	 83.5%	 76.9%	 76.9%
 Number of active members	 4,036	 24	 4,016	 24
 Net pension liability per active member	 \$ 4,502	 \$ 1,969	 \$ 6,647	 \$ 2,611

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

Schedule of Investment Returns

<u>Fiscal Year Ending</u>	<u>Annual Money-Weighted Net Real Rate of Return</u>
August 31, 2013	13.84%
August 31, 2014	14.92%
August 31, 2015	-3.58%

8. Accounts Receivable and Due From Other Governments

Accounts receivable for the City's governmental and business-type activities, including the applicable allowance for uncollectible accounts at September 30, 2016 are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
Receivables:				
Property taxes	\$ 50,759.45	\$ 14,671.70	\$	\$ 65,431.15
Customers			581,492.35	581,492.35
Other governments	62,415.73			62,415.73
Other	<u>37,878.15</u>			<u>37,878.15</u>
Gross receivables	151,053.33	14,671.70	581,492.35	747,217.38
Less: Allowance for uncollectibles	<u>(9,646.56)</u>	<u>(760.71)</u>	<u>(385,772.13)</u>	<u>(396,179.40)</u>
Net total receivables	<u>\$ 141,406.77</u>	<u>\$ 13,910.99</u>	<u>\$ 195,720.22</u>	<u>\$ 351,037.98</u>

Due from other governments for the City's governmental activities at September 30, 2016 are as follows:

State of Texas -- sales tax	\$ 54,663.93
Lubbock Central Appraisal District	1,181.80
Lubbock County -- UMC Health System	<u>6,570.00</u>
Total due from other governments	<u>\$ 62,415.73</u>

The property taxes receivable account represents the current and past years uncollected tax levies on real property. Customer accounts receivable consists of amounts owed from organizations or private individuals for good or services. Receivables from other governments consist primarily of sales tax owed to the City by the State of Texas.

9. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City insures against these risks of loss as part of a comprehensive risk management program. The City purchases property, liability, and workers compensation insurance through the Texas Municipal League Intergovernmental Risk Pool (the Pool). The Pool's mission is to provide Texas municipalities and other units of local government with a stable source of risk financing and loss prevention services at the lowest cost consistent with sound business practices. The Pool provides property, liability and workers' compensation coverage for certain governmental entities of the State of Texas. Member entities include municipalities, housing authorities, councils of governments, hospital districts, water districts and tax appraisal districts. The Pool consists of separate funds: the Workers' Compensation Fund, the Liability Fund, the Property Fund, the Reinsurance Fund, the Stability Fund, the Large Loss Fund, Property Improvements Fund, and the Lifetime Benefits Fund. The financial results of these coverages are accounted for in separate funds by the Pool.

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

The Texas Workers' Compensation Joint Insurance Fund (the Workers' Compensation Fund) was created in 1974 by the Texas Municipal League. This Fund provides coverage that conforms to the workers' compensation law of Texas. The Texas Municipal League Joint-Self Insurance Liability and Property Funds (the Liability Fund and Property Fund) were created in October 1981 by TML. The coverages provided by these Funds include comprehensive general liability, comprehensive automobile liability, automobile physical damage, law enforcement liability, public officials' errors and omissions, hangar-keepers liability, chartered aircraft and airport liability, real and personal property, mobile equipment and boiler and machinery. As part of the coverage, the Pool provides risk management services with emphasis on loss control.

On August 26, 1990, the Board of Trustees of the Pool (the Board) created the Texas Municipal League Intergovernmental Risk Pool Stability Fund (the Stability Fund). The Stability Fund provides protection for the Workers' Compensation Fund, the Liability Fund and Property Fund for each program year to offset cash short falls due to unexpected and/or catastrophic loss experience. Payments from each fund were based on 2% of each Fund's member contributions from inception of the respective fund. On January 23, 1994, the Board reduced the payments from each fund to 1% effective October 1, 1993. On July 30, 1994, the Board again reduced the payments from each fund to ½% effective October 1, 1994. Distributions from the Stability Fund are only made upon Board authorization and are limited to the Stability Fund's assets. Contributions to the Stability Fund will be accumulated until such accumulated equity equals one third of contributions for all members for all related programs for the most recent completed fiscal year. Equity in the Stability Fund shall not be considered excessive unless the equity in the Stability Fund exceeds ½ of total contributions for the last completed fiscal year of the Workers' Compensation, Liability and Property Funds.

On August 26, 1990 the Board also agreed to establish the Reinsurance Fund. The purpose of the Reinsurance Fund is to provide additional self-funded layers of risk. The initial amounts of member's equity classified for the Reinsurance Fund are based upon a special allocation of contributions for years 1985-86 through 1988-89. Equity in the Reinsurance Fund shall be used solely for reinsurance protection for coverages provided by the Pool. If the Board determines that excess equity exists in the Reinsurance Fund, such excess equity will be returned to the participating Funds on a percentage basis of all contributions paid to the Reinsurance Fund or on any other basis determined by the Board to be equitable. On July 19, 2003 the Board authorized the separation of the Large Loss Fund from the Reinsurance Fund and established it as a separate fund effective September 30, 2003. The Large Loss Fund was created to provide additional protection against large losses. Utilizing the Pool's Reinsurance Fund and Large Loss Fund, the Pool purchased reinsurance protection from its own Funds. The use of these funds, combined with the increased level of retention that the Funds are accepting has allowed the Pool to reduce the amount of reinsurance that the Pool needs to purchase from outside sources. By accepting more risk, the Pool has been able to pass these savings on to its members.

The Pool purchases excess insurance to protect against catastrophic losses that exceed the Pool's self-insurance retention. This excess insurance is purchased from domestic A-rated companies.

The City carried property insurance through the Pool in the amount of \$14,881,746 and liability insurance in the amount of \$1,000,000 or \$2,000,000 depending on the policy area covered for the fiscal year ended September 30, 2016. The City's coverage includes fire and windstorm with flood and earthquake coverage excluded. The premiums paid for Workers' Compensation Coverage are based on estimated payroll amounts and are subject to fluctuations based upon an audit of payroll costs by the insurer. Any increase or decrease is not expected to be material to the financial statements.

There have been no significant reductions in insurance coverage during the fiscal year ended September 30, 2016. Settled claims have not exceeded coverage in any of the past three years.

The City has established an internal service fund to account for health insurance benefits for City employees. Health benefits are self-insured up to a stop loss amount with coverage from a private insurance company for losses in excess of the stop loss amount. All claims handling procedures are performed by a third party claims administrator. Incurred but not reported (IBNR) have been accrued as a liability. The estimated liability does not

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

include any allocated or unallocated claims adjustment expense. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

The General Fund and the Enterprise Fund of the City participate in the program and make payments to the internal service fund to pay claims. The claims payable reported as a liability in the internal service fund is based on management's estimate of the future claims as of the year ended September 30, 2016.

Changes in reported liabilities for the fiscal years ended September 30, 2015 and 2016 are summarized as follows:

<u>Claims Liabilities</u>	<u>9/30/2015</u>	<u>9/30/2016</u>
Unpaid claims, beginning	-	\$ 6,221.08
Incurred claims & changes in estimate (including IBNR)	43,547.58	36,737.38
Claims paid	<u>(37,326.50)</u>	<u>(36,821.54)</u>
Unpaid claims, ending	<u>\$ 6,221.08</u>	<u>\$ 6,136.92</u>

10. Capital Assets

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

	<u>Balance</u> <u>10/1/2015</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Retirements</u>	<u>Balance</u> <u>9/30/2016</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 403,537.07	\$	\$	\$ 403,537.07
Construction in progress	<u>44,070.98</u>			<u>44,070.98</u>
Total capital assets, not being depreciated	447,608.05	-	-	447,608.05
Capital assets, being depreciated				
Buildings and improvements	3,970,830.16	3,950.00		3,974,780.16
Streets and infrastructure	4,282,497.67	195,750.70		4,478,248.37
Office furniture and equipment	186,814.27	25,109.10		211,923.37
Vehicles, equipment and machinery	3,268,017.66	311,566.07		3,579,583.73
Library books and equipment	<u>250,305.80</u>	<u>26,151.43</u>		<u>276,457.23</u>
Total capital assets, being depreciated	<u>11,958,465.56</u>	<u>562,527.30</u>	-	<u>12,520,992.86</u>
Less accumulated depreciation for:				
Buildings and improvements	1,234,932.79	110,496.14		1,345,428.93
Streets and infrastructure	3,401,208.76	116,308.85		3,517,517.61
Office furniture and equipment	170,541.88	10,468.51		181,010.39
Vehicles, equipment and machinery	2,382,519.04	217,836.51		2,600,355.55
Library books and equipment	<u>189,796.46</u>	<u>16,870.04</u>		<u>206,666.50</u>
Total accumulated depreciation	<u>7,378,998.93</u>	<u>471,980.05</u>	-	<u>7,850,978.98</u>
Total capital assets, being depreciated, net	<u>4,579,466.63</u>	<u>90,547.25</u>	-	<u>4,670,013.88</u>
Governmental activities capital assets, net	<u>\$ 5,027,074.68</u>	<u>\$ 90,547.25</u>	<u>\$ -</u>	<u>\$ 5,117,621.93</u>

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS September 30, 2016

	Balance <u>10/1/2015</u>	Transfers and <u>Additions</u>	Transfers and <u>Retirements</u>	Balance <u>9/30/2016</u>
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 486,270.40	\$	\$	\$ 486,270.40
Total capital assets, not being depreciated	<u>486,270.40</u>	<u>-</u>	<u>-</u>	<u>486,270.40</u>
Capital assets, being depreciated				
Buildings	257,903.37			257,903.37
Water and sewer system	15,969,812.60	1,994,831.72		17,964,644.32
Vehicles, equipment and machinery	<u>500,213.84</u>	<u>336,315.68</u>		<u>836,529.52</u>
Total capital assets, being depreciated	16,727,929.81	2,331,147.40	-	19,059,077.21
Less accumulated depreciation for:				
Buildings	183,656.72	7,137.70		190,794.42
Water and sewer system	4,966,904.48	690,186.36		5,657,090.84
Vehicles, equipment and machinery	<u>403,953.84</u>	<u>50,423.88</u>		<u>454,377.72</u>
Total accumulated depreciation	<u>5,554,515.04</u>	<u>747,747.94</u>	<u>-</u>	<u>6,302,262.98</u>
Total capital assets, being depreciated, net	<u>11,173,414.77</u>	<u>1,583,399.46</u>	<u>-</u>	<u>12,756,814.23</u>
Enterprise fund assets, net	<u>\$ 11,659,685.17</u>	<u>\$ 1,583,399.46</u>	<u>\$ -</u>	<u>\$ 13,243,084.63</u>

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

Governmental activities:	
Financial administration	\$ 10,468.51
Building and grounds	110,496.14
Public safety - police department	94,641.13
Public safety - fire and EMS	110,484.87
Public works - street department	122,104.57
Emergency management	6,914.79
Library	<u>16,870.04</u>
Total depreciation expense -- governmental activities	<u>\$ 471,980.05</u>
Business-type activities:	
Buildings	\$ 7,137.70
Water and sewer system	690,186.36
Vehicles, equipment and machinery	<u>50,423.88</u>
Total depreciation expense -- business-type activities	<u>\$ 747,747.94</u>

11. Related Parties

The City from time to time purchases services from related parties in arms-length transactions. During the fiscal year ended September 30, 2016 these related party transactions totaled \$13,250.00.

CITY OF WOLFFORTH, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

12. Leases

The City has leased administration offices and two buildings to the Texas Forest Service. The expected rental receipts for these leases which expire June 30, 2019 are as follows:

FYE 9/30/2017	\$	45,200.04
FYE 9/30/2018		45,200.04
FYE 9/30/2019		<u>33,900.03</u>
	\$	<u>124,300.11</u>

The City has also leased office space to two businesses that are currently on month to month leases with no future commitments.

13. Commitments and Contingencies

Grant Audits

In the normal course of operations, the City receives grant funds from various Federal and State agencies as well as private foundations. These grant programs are subject to compliance audits by the grantors or their representatives, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits, is not believed to be significant.

Litigation

From time to time the City is party to various legal proceedings which normally occur in governmental operations. Although the outcome of these lawsuits is not presently determinable, in the opinion of City management, after consultation with legal counsel, these legal proceedings are not likely to have a significant adverse impact on the affected funds of the City.

Construction Commitments

The City has active construction projects as of September 30, 2016. The projects include construction projects in the general fund and enterprise fund. The City has issued Certificates of Obligation to fund these projects and estimated the following amounts to be expensed on each project. The year end commitments are as follows:

	Remaining <u>Commitment</u>
Construction projects	<u>\$ 174,728.58</u>

Supplementary Information

CITY OF WOLFFORTH, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual Amounts		Variance With
				Adjustments to Budgetary Basis	Final Budget Positive (Negative)
	Original	Final	Actual	Actual on Budgetary Total	
Revenues					
Property taxes	\$ 1,287,347.00	\$ 1,351,174.00	\$ 1,351,221.02	\$ 1,351,221.02	\$ 47.02
Penalties and interest	14,000.00	25,000.00	25,039.13	25,039.13	39.13
Sales tax	297,025.00	417,925.00	427,881.82	427,881.82	9,956.82
Fire department revenue	65,000.00	66,200.00	66,567.00	66,567.00	367.00
Permits and licenses	70,580.00	181,695.00	181,855.55	181,855.55	160.55
Municipal court revenue	120,000.00	96,200.00	96,287.18	96,287.18	87.18
Franchise fees	270,000.00	231,900.00	231,950.29	231,950.29	50.29
EMS revenue	198,000.00	210,800.00	210,874.03	210,874.03	74.03
EMS subsidy	76,000.00	89,000.00	87,825.00	87,825.00	(1,175.00)
Library revenue	11,177.00	11,077.00	11,327.79	11,327.79	250.79
Park revenue	10,000.00	10,250.00	10,250.00	10,250.00	-
Rent revenue	50,000.00	45,200.00	45,330.04	45,330.04	
Interest revenue	9,055.00	16,975.00	17,037.35	17,037.35	62.35
Grant proceeds	-	46,800.00	47,089.13	47,089.13	289.13
Miscellaneous	19,050.00	25,380.00	26,024.54	26,024.54	644.54
Total Revenues	2,497,234.00	2,825,576.00	2,836,559.87	-	10,983.87
Expenditures					
Current--					
City government	29,060.00	60,855.00	62,482.57	62,482.57	(1,627.57)
Municipal court	48,150.00	46,150.00	57,879.75	57,879.75	(11,729.75)
Financial administration	355,205.00	417,691.00	411,419.17	411,419.17	6,271.83
Building and grounds	96,000.00	158,465.00	157,030.51	157,030.51	1,434.49
Code enforcement	14,200.00	2,875.00	2,660.78	2,660.78	214.22
Public safety - police department	802,800.00	842,307.00	828,800.83	828,800.83	13,506.17
Public safety - fire department & EMS	698,263.00	541,965.00	537,002.59	537,002.59	4,962.41
Miscellaneous public service	7,500.00	7,450.00	7,550.49	7,550.49	(100.49)
Emergency management	37,773.00	41,471.00	40,593.29	40,593.29	877.71
Public works - street department	9,000.00	32,450.00	13,324.39	13,324.39	19,125.61
Park	45,600.00	49,400.00	54,565.84	54,565.84	(5,165.84)
Library	139,572.00	146,777.00	146,073.70	146,073.70	703.30
Capital outlay	610,200.00	544,850.00	562,527.30	562,527.30	(17,677.30)
Total Expenditures	2,893,323.00	2,892,706.00	2,881,911.21	-	10,794.79
Excess (Deficiency) of Revenues Over (Under) Expenditures	(396,089.00)	(67,130.00)	(45,351.34)	-	21,778.66
Other Financing Sources (Uses)					
Proceeds of long-term debt	353,600.00	914,710.00	927,165.16	927,165.16	12,455.16
Payments on long-term debt	(134,380.00)				
Bond refunding		(541,700.00)	(541,949.82)	(541,949.82)	(249.82)
Transfers in	38,949.00			-	-
Transfers out		(68,000.00)	(159,666.27)	(159,666.27)	(91,666.27)
Total Other Financing Sources and Uses	258,169.00	305,010.00	225,549.07	-	(79,460.93)
Net Change in Fund Balance	(137,920.00)	237,880.00	180,197.73	180,197.73	(57,682.27)
Fund Balance, October 1	1,064,541.38	1,064,541.38	1,064,541.38	-	-
Fund Balance, September 30	\$ 926,621.38	\$ 1,302,421.38	\$ 1,244,739.11	\$ -	\$ (57,682.27)

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
Schedule of Changes in Net Pension Liability and Related Ratios - TMRS
(unaudited)

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 100,375	\$ 126,524
Interest (on the Total Pension Liability)	195,013	211,984
Changes of benefit terms	302,903	-
Difference between expected and actual experience	15,598	42,068
Change of assumptions	-	(11,327)
Benefit payments, including refunds of employee contributions	<u>(86,803)</u>	<u>(76,433)</u>
Net Change in Total Pension Liability	527,086	292,816
Total Pension Liability - Beginning	<u>2,476,215</u>	<u>3,003,301</u>
Total Pension Liability - Ending (a)	<u><u>\$ 3,003,301</u></u>	<u><u>\$ 3,296,117</u></u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 82,934	\$ 119,684
Contributions - employee	52,490	55,154
Net investment income	120,269	3,350
Benefit payments, including refunds of employee contributions	(86,803)	(76,433)
Administrative expense	(1,256)	(2,040)
Other	<u>(103)</u>	<u>(101)</u>
Net Change in Plan Fiduciary Net Position	167,531	99,614
Plan Fiduciary Net Position - Beginning	<u>2,102,270</u>	<u>2,269,801</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 2,269,801</u></u>	<u><u>\$ 2,369,415</u></u>
 Net Pension Liability - Ending (a) -(b)	<u><u>\$ 733,500</u></u>	<u><u>\$ 926,702</u></u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	75.58%	71.89%
 Covered Employee Payroll	\$ 1,049,803	\$ 1,103,083
 Net Pension Liability as a Percentage of Covered Employee Payroll	69.87%	84.01%

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
Schedule of Changes in Net Pension Liability and Related Ratios - TESRS
(unaudited)

	<u>August 31, 2014</u>	<u>August 31, 2015</u>
Total Pension Liability		
Service cost	\$ 4,751	\$ 3,977
Interest (on the Total Pension Liability)	20,933	19,884
Changes of benefit terms		
Difference between expected and actual experience		
Change of assumptions		
Change in percentage in TESRS participation		(27,749)
Benefit payments, including refunds of employee contributions	(10,837)	(10,560)
Net Change in Total Pension Liability	14,847	(14,448)
Total Pension Liability - Beginning	270,775	285,622
Total Pension Liability - Ending (a)	<u>\$ 285,622</u>	<u>\$ 271,174</u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 10,859	\$ 8,252
Contributions - State of Texas	3,979	3,843
Net investment income	30,962	(7,730)
Benefit payments, including refunds of employee contributions	(10,837)	(10,560)
Administrative expense	(431)	(507)
Change in percentage in TESRS participation		(23,158)
Net Change in Plan Fiduciary Net Position	34,532	(29,860)
Plan Fiduciary Net Position - Beginning	203,844	238,376
Plan Fiduciary Net Position - Ending (b)	<u>\$ 238,376</u>	<u>\$ 208,516</u>
 Net Pension Liability - Ending (a) -(b)	\$ 47,246	\$ 62,658
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	83.46%	76.89%
 Number of Active Members	24	29
 Net Pension Liability Per Active Member	\$ 1,969	\$ 2,161

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS
Schedule of Contributions
(unaudited)

FYE 09-30-16

Schedule of Contributions - TMRS
(unaudited)

Actuarially Determined Contribution	\$ 129,826.37
Contributions in relation to the actuarially determined contribution	<u>129,826.37</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 1,180,764.87
Contributions as a percentage of covered employee payroll	11.00%

Schedule of Contributions - TESRS
(unaudited)

Contributions as determined by TESRS board	\$ 13,500.00
Contributions made to the System by the City	<u>13,500.00</u>
Contribution deficiency (excess)	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WOLFFORTH, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2016

Budgetary Control - Policy and Practice

The City operates on a twelve-month fiscal year which begins on October 1. The City Manager is the budget officer and submits a budget of estimated revenues and expenditures to the City Council. Upon receipt of the budget estimates the City Council holds a budget workshop and a public budget hearing. Prior to October 1, the budget is legally enacted through approval by the City Council. Once approved, the Council may amend the legally adopted budget by a majority vote when unexpected modifications are required in estimated revenues and appropriations. In addition to the legally adopted budget the Council approves payment of expenditures at each monthly Council meeting. Unused appropriations for all annually budgeted funds lapse at the end of the fiscal year. Budgets are prepared on the accrual basis of accounting and include debt principal retirements and capital outlays as expenses.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. The legal level of control is the total expenditures of the budgeted funds. Expenditures may not exceed appropriations at the total levels. Budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations between line items without Council approval.

The Budgetary Comparison Schedule, included in the required supplementary information presents a comparison of budgetary data to actual results of operations for the General Fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results, with the exception of the donated assets and related expenditure associated with the donation.

In the originally adopted budget expenditures exceeded revenues by \$137,920. When the budget was amended at the end of the fiscal year the budgeted revenues exceeded expenditures by \$237,880.

CITY OF WOLFFORTH, TEXAS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2016**

Notes to Schedule of Contributions -TMRS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

Notes to Schedule of Contributions -TESRS

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5% per year
Overall payroll growth	N/A
Investment Rate of Return	7.75% net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.