

CITY OF ARCOLA, TEXAS

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2015



CITY OF ARCOLA, TEXAS
PRINCIPAL OFFICIALS

Governing Body

Honorable Mary Etta Anderson	Mayor
Evelyn Jones	Council Member
Florencia Martinez	Council Member
Rosie Rojas	Council Member
Glenn Sanco	Council Member

Other Principal Official

Sally Cantu	City Secretary
James L. Dougherty, Jr.	City Attorney

CITY OF ARCOLA, TEXAS
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REPORT OF INDEPENDENT AUDITORS

To The Honorable Mayor and
City Council Members of the
City of Arcola, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

To The Honorable Mayor and
City Council Members of the
City of Arcola, Texas

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 discretely presented component unit and each major fund of the City of Arcola, Texas, as of September 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8 and 39-40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2016, on our consideration of the City of Arcola, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Houston, Texas
November 8, 2016

CITY OF ARCOLA, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Arcola, Texas (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, 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources and liabilities, with the difference between the three reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event to the change occurs, *regardless of timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g. municipal court fines).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, permits and inspections, public safety, and public works. Property taxes, sales tax, franchise fees, fines and forfeitures finance most of these activities. The business-type activities of the City include water distribution and wastewater collection/treatment.

The government-wide financial statements include not only the City itself (known as *the primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *discretely presented component units* is reported separately from the financial information presented for the primary government itself. The City's discretely presented component unit consists of the Arcola 4B Corporation. Although legally separate, this component unit is included because the City is financially accountable for it.

The government-wide financial statements can be found on pages 11 through 13 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three (3) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the each of the three (3) funds; the General Fund, Debt Service Fund and the Capital Projects Fund are all considered a major fund.

The governmental funds financial statements can be found on pages 14 through 17 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Proprietary funds are used to report the same functions presented as the business-type activities in the government-wide financial statements. The City uses one enterprise fund to account for its water distribution and wastewater collection/treatment.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Service and is presented as a major fund.

The basic enterprise fund financial statements can be found on pages 18 through 20 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 38 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* -- Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual for the General Fund. Required supplementary information can be found on pages 40 through 41 of this report.

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the City of Arcola, assets exceeded liabilities by \$10.0 million as of September 30, 2015.

By far the largest portion of the City's net position (65%) reflects its net investment in capital assets (e.g., land, construction in progress, buildings, improvements other than buildings, machinery and equipment, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide services to citizens; consequently these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CONDENSED SCHEDULE OF NET POSITION

September 30, 2015 and 2014

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 3,351,849	\$ 3,684,613	\$ 491,875	\$ 361,252	\$ 3,843,724	\$ 4,045,865
Capital assets	326,827	880,466	9,577,653	9,010,562	9,904,480	9,891,028
Total Assets	<u>3,678,676</u>	<u>4,565,079</u>	<u>10,069,528</u>	<u>9,371,814</u>	<u>13,748,204</u>	<u>13,936,893</u>
Current and other liabilities	189,541	689,382	221,195	319,526	410,736	1,008,908
Long-term liabilities	3,370,000	3,455,000	0	0	3,370,000	3,455,000
Total Liabilities	<u>3,559,541</u>	<u>4,144,382</u>	<u>221,195</u>	<u>319,526</u>	<u>3,780,736</u>	<u>4,463,908</u>
Net position:						
Net investment in capital assets	(3,128,173)	(2,120,368)	9,577,653	9,010,562	6,449,480	6,890,194
Restricted	292,147	308,100			292,147	308,100
Unrestricted	2,955,161	2,258,587	270,680	41,726	3,225,841	2,300,313
Total Net Position	<u>\$ 119,135</u>	<u>\$ 446,319</u>	<u>\$ 9,848,333</u>	<u>\$ 9,052,288</u>	<u>\$ 9,967,468</u>	<u>\$ 9,498,607</u>

An additional portion of the City's net position, \$292,147, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$3.2 million may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

As of September 30, 2015, the City is able to report positive balances in all three categories of net position. The following table provides a summary of the City's operations for the year ended September 30, 2015:

CONDENSED SCHEDULE OF CHANGES IN NET POSITION

September 30, 2015 and 2014

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenue:						
Charges for services	257,960	273,045	507,290	340,283	\$ 765,250	\$ 613,328
Operating grants and contributions	1,293	586			1,293	586
Capital grants and contributions	246,572	1,075,739	79,126	567,393	325,698	1,643,132
General revenues:						
Property taxes	781,882	851,968			781,882	851,968
Sales taxes	431,700	428,403			431,700	428,403
Franchise taxes	50,878	51,382			50,878	51,382
Investment earnings	5,871	4,365	2,840	2,117	8,711	6,482
Other revenues	19,828	9,722			19,828	9,722
Gain on disposal of asset	2,600				2,600	
Total Revenues	1,798,584	2,695,210	589,256	909,793	2,387,840	3,605,003
Expenses:						
General government	550,341	499,187			550,341	499,187
Municipal court	106,078	125,712			106,078	125,712
Public safety	356,414	394,239			356,414	394,239
Interest on long-term debt	93,549	81,583			93,549	81,583
Water and sewer			812,597	504,416	812,597	504,416
Total Expenses	1,106,382	1,100,721	812,597	504,416	1,918,979	1,605,137
Increase in net position before transfers	692,202	1,594,489	(223,341)	405,377	468,861	1,999,866
Transfers	(1,019,386)	(2,515,528)	1,019,386	2,515,528		
Change in net position	(327,184)	(921,039)	796,045	2,920,905	468,861	1,999,866
Net Position - as restated	446,319	1,367,358	9,052,288	6,131,383	9,498,607	7,498,741
Net Position - ending	\$ 119,135	\$ 446,319	\$ 9,848,333	\$ 9,052,288	\$ 9,967,468	\$ 9,498,607

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental activities

For the year ended September 30, 2015, revenues from governmental activities totaled \$1.8 million. Overall, governmental revenues decreased by 33% from the prior year due to a reduction in capital grants. Charges for services decreased by 6%. Municipal Court revenues were lower due to a vacancy in the police department which lead to fewer collections on warrants; property taxes were lower by 8% due to an increase in the allowance for uncollectible accounts.

For the year ended September 30, 2015, expenses for governmental activities totaled \$1.1 million, which represents an increase of 1% from the previous year. General expenses increased the most over the prior year, primarily due to an increase in general and administrative salaries.

Business-type activities

Charges for services for business-type activities increased \$167,007 or 49% from the previous year due to an increase in water and sewer revenues and water and sewer taps. Water and sewer expenses have increased by 61%. The increase is primarily due to increases in water pumpage and tapping fees as well as repair and maintenance, utilities and depreciation expense as capital assets increased with completed projects and capacity.

Financial Analysis of the City's Funds

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$3.2 million. Of this amount, \$132,628 is restricted for the City's Municipal Court Technology and Security funds, is committed to capital projects, and \$2.6 million is unassigned. There was an increase in the combined fund balance of \$244,160 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$2.6 million. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance is 2.5 times the total general fund expenditures. The general fund demonstrated an overall increase of \$369,954, primarily due to an increase in the property taxes and license and permits.

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

General Fund Budgetary Highlights

There was no budgeted change to fund balance for the year. However actual general fund revenues exceeded budgeted by \$147,654; expenditures were less than budgeted by .

All areas had positive variances.

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2015, amounted to \$0.3 million and \$9.6 million (net of accumulated depreciation), respectively. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

The following table shows the balances at September 30, 2014 and 2015:

	<u>2015</u>	<u>2014</u>
Governmental Activities		
Capital assets, not being depreciated:		
Land	\$ 153,248	\$ 153,248
Construction in progress		588,751
Capital assets net of depreciation		
Buildings and improvements	121,464	128,217
Machinery and equipment	52,115	10,250
Total capital assets - net of depreciation	<u>\$ 326,827</u>	<u>\$ 880,466</u>
Business-Type Activities		
Capital assets, not being depreciated:		
Construction in progress	\$ 188,976	\$ 4,219,180
Capital assets net of depreciation		
Machinery and equipment	1,287	5,520
Water and sewer system	9,387,390	4,785,860
Total capital assets - net of depreciation	<u>\$ 9,577,653</u>	<u>\$ 9,010,560</u>

Long-term liabilities

Detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The City Council has adopted the City's 2016 budget. The approved budget included an additional \$1.3 million from a development agreement for multi-family housing.

Request for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Mary Etta Anderson, Mayor, 13222 Highway 6, 77583, telephone 281-431-0606.

BASIC FINANCIAL STATEMENTS

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CITY OF ARCOLA, TEXAS
STATEMENT OF NET POSITION
September 30, 2015

	Primary Government			Component
	Governmental	Business-Type	Total	Unit
	Activities	Activities		Arcola 4B
				Corporation
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,788,655	\$ 679,746	\$ 3,468,401	\$ 706,261
Receivables, net	145,783	46,097	191,880	19,979
Internal balances	417,411	(417,411)		
Due from primary government				20,758
Due from other governments		111,394		
Restricted:				
Cash and cash equivalents - customer deposits		72,049	72,049	
Total Current assets	3,351,849	491,875	3,732,330	746,998
Capital assets:				
Non-depreciable capital assets	153,248	188,976	342,224	
Depreciable capital assets, net	173,579	9,388,677	9,562,256	
Total Noncurrent assets	326,827	9,577,653	9,904,480	
Total Assets	3,678,676	10,069,528	13,636,810	746,998
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	83,783	149,146	232,929	
Customer deposits		72,049	72,049	
Due to component unit	20,758		20,758	
Total current liabilities	104,541	221,195	325,736	
Long-term liabilities:				
Due within one year	85,000		85,000	
Due in more than one year	3,370,000		3,370,000	
Total long-term liabilities	3,455,000		3,455,000	
Total Liabilities	3,559,541	221,195	3,780,736	
Net Position				
Net investment in capital assets	(3,128,173)	9,577,653	6,449,480	
Restricted for:				
Court security and technology	103,284		103,284	
Debt Service	188,863		188,863	
Unrestricted	2,955,161	270,680	3,225,841	746,998
Total Net Position	\$ 119,135	\$ 9,848,333	\$ 9,967,468	\$ 746,998

See Notes To Basic Financial Statements.

CITY OF ARCOLA, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental Activities:				
Administrative	\$ 550,341	\$ 40,370	\$	\$ 246,572
Police Department	356,414		1,293	
Municipal court	106,078	217,590		
Interest on long-term debt	93,549			
Total governmental activities	<u>1,106,382</u>	<u>257,960</u>	<u>1,293</u>	<u>246,572</u>
Business-Type Activities:				
Water and Sewer Operations	<u>812,597</u>	<u>507,290</u>		<u>79,126</u>
Total Primary Government	<u>\$1,918,979</u>	<u>\$ 765,250</u>	<u>\$ 1,293</u>	<u>\$ 325,698</u>
Component Units				
Arcola 4B Corporation	<u>\$ 1,894</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
		General revenues:		
		Taxes:		
		Property taxes		
		Sales tax		
		Franchise taxes		
		Investment earnings		
		Other revenues		
		Gain on sale of assets		
		Transfers		
		Total general revenues		
		Change in net position		
		Net Position - beginning, as restated		
		Net Position - ending		

See Notes to Basic Financial Statements.

Net Revenue (Expense) and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Arcola 4B Corporation
\$ (263,399)		\$ (263,399)	
(355,121)		(355,121)	
111,512		111,512	
(93,549)		(93,549)	
<u>(600,557)</u>		<u>(600,557)</u>	
	(226,181)	(226,181)	
<u>(600,557)</u>	<u>(226,181)</u>	<u>(826,738)</u>	
			\$ (1,894)
781,882		781,882	
431,700		431,700	142,898
50,878		50,878	
5,871	2,838	8,709	1,429
19,828		19,828	
2,600		2,600	
<u>(1,019,386)</u>	<u>1,019,386</u>	<u></u>	<u></u>
<u>273,373</u>	<u>1,022,224</u>	<u>1,295,597</u>	<u>144,327</u>
(327,184)	796,043	468,859	142,433
<u>446,319</u>	<u>9,052,290</u>	<u>9,498,609</u>	<u>604,565</u>
<u>\$ 119,135</u>	<u>\$ 9,848,333</u>	<u>\$ 9,967,468</u>	<u>\$ 746,998</u>

CITY OF ARCOLA, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Funds</u>
Assets				
Cash and cash equivalents	\$ 2,255,558	\$ 125,101	\$ 407,996	\$ 2,788,655
Receivables, net	134,064	11,719		145,783
Due from other funds	469,118	6,193		475,311
Total Assets	<u>\$ 2,858,740</u>	<u>\$ 143,013</u>	<u>\$ 407,996</u>	<u>\$ 3,409,749</u>
Liabilities				
Accounts payable	\$ 75,735	\$	\$	\$ 75,735
Accrued expenditures	600			600
Due to other funds	6,193		51,707	57,900
Due to component units	20,758			20,758
Total Liabilities	<u>103,286</u>		<u>51,707</u>	<u>154,993</u>
Deferred Inflows of Resources				
Unavailable property taxes	53,298	10,385		63,683
Total Deferred Inflows of Resources	<u>53,298</u>	<u>10,385</u>		<u>63,683</u>
Fund balances				
Restricted for:				
Debt service		132,628		132,628
Court security and technology	103,284			103,284
Assigned			356,289	356,289
Unassigned	2,598,872			2,598,872
Total Fund Balances	<u>2,702,156</u>	<u>132,628</u>	<u>356,289</u>	<u>3,191,073</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 2,858,740</u>	<u>\$ 143,013</u>	<u>\$ 407,996</u>	<u>\$ 3,409,749</u>

See Notes to Basic Financial Statements.

CITY OF ARCOLA, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
September 30, 2015**

Total fund balance, governmental funds \$ 3,191,073

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 326,827

Uncollected long-term receivables are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position. 63,683

Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.

Certificates of Obligation	(3,455,000)
Accrued long-term interest	<u>(7,448)</u>

Net Position of Governmental Activities in the Statement of Net Position \$ 119,135

See Notes to Basic Financial Statements.

CITY OF ARCOLA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Funds</u>
Revenues				
Taxes:				
Property	\$ 704,088	\$ 145,923	\$	\$ 850,011
Sales	431,700			431,700
Franchise	50,878			50,878
Licenses and permits	40,370			40,370
Intergovernmental	2,194		246,572	248,766
Fines and forfeitures	217,590			217,590
Investment earnings	4,552	133	1,186	5,871
Other revenues	18,927			18,927
Total Revenues	<u>1,470,299</u>	<u>146,056</u>	<u>247,758</u>	<u>1,864,113</u>
Expenditures				
Current:				
General Administration	545,411			545,411
Police Department	396,456			396,456
Municipal Court	106,078			106,078
Capital Outlay			103,437	103,437
Debt Service:				
Principal		50,000		50,000
Interest		93,973		93,973
Total Expenditures	<u>1,047,945</u>	<u>143,973</u>	<u>103,437</u>	<u>1,295,355</u>
Revenues over (under) expenditures	<u>422,354</u>	<u>2,083</u>	<u>144,321</u>	<u>568,758</u>
Other Financing Sources (Uses)				
Transfers in		20,000		20,000
Transfers out	(55,000)		(292,198)	(347,198)
Sale of capital assets	2,600			2,600
Total other financing sources (uses)	<u>(52,400)</u>	<u>20,000</u>	<u>(292,198)</u>	<u>(324,598)</u>
Net Changes in Fund Balances	369,954	22,083	(147,877)	244,160
Fund Balances - beginning of year (as restated)	<u>2,332,202</u>	<u>110,545</u>	<u>504,166</u>	<u>2,946,913</u>
Fund Balances - end of year	<u>\$ 2,702,156</u>	<u>\$ 132,628</u>	<u>\$ 356,289</u>	<u>\$ 3,191,073</u>

See Notes to Basic Financial Statements.

CITY OF ARCOLA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

Net change in fund balances - total governmental funds: \$ 244,160

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The capital asset expenditures are allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlay of \$157,578 exceeded depreciation of \$19,029 in the current period. 138,549

Construction in progress reported in the Governmental Activities was completed and transferred to the Enterprise Fund in the current year (692,188)

Governmental funds do not present revenues (property taxes) that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. (68,129)

Governmental funds report repayment of bonds as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of payments made on long-term debt. 50,000

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

Accrued interest not reflected in Governmental funds 424

Change in net position of governmental activities \$ (327,184)

See Notes to Basic Financial Statements.

CITY OF ARCOLA, TEXAS**STATEMENT OF NET POSITION****PROPRIETARY FUNDS***September 30, 2015*

	Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 679,746
Accounts receivable, net	46,097
Due from other funds	9,575
Due from other governments	111,394
Restricted assets:	
Cash and cash equivalents - customer deposits	72,049
Total current assets	918,861
Noncurrent assets:	
Capital assets:	
Land	
Construction in progress	188,976
Infrastructure	11,952,008
Equipment	21,165
Less accumulated depreciation	(2,584,496)
Total noncurrent assets	9,577,653
Total Assets	\$ 10,496,514
Liabilities	
Accounts payable and accrued liabilities	\$ 149,146
Customer deposits	72,049
Due to other funds	426,986
Total Liabilities	648,181
Net Position	
Investment in capital assets	9,577,653
Unrestricted	270,680
Total Net Position	\$ 9,848,333

See Notes to Basic Financial Statements.

CITY OF ARCOLA, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended September 30, 2015

	Water and Sewer Fund
	<u> </u>
Operating Revenues	
Charges for sales and services	\$ 507,290
Operating Expenses	
Administrative	24,284
Professional Fees	29,470
Contractual services	104,534
Other operating	119,197
Purchased Water	57,806
Maintenance and Repairs	139,588
Utilities	62,636
Bad debt expense	25,792
Depreciation	249,290
	<u>812,597</u>
Operating income (loss)	<u>(305,307)</u>
Non-Operating Revenues	
Investment earnings	2,838
Total Non-Operating Revenues	<u>2,838</u>
Income (loss) before transfers and capital contributions	(302,469)
Transfers in	327,198
Capital contributions	771,314
Change in Net Position	796,043
Total Net Position - beginning of year (as restated)	<u>9,052,290</u>
Total Net Position - end of year	<u>\$ 9,848,333</u>

See Notes to Basic Financial Statements.

CITY OF ARCOLA, TEXAS
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
For the Year Ended September 30, 2015

	Water and Sewer Fund
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 521,076
Receipts from others	42,725
Payments to suppliers	(646,740)
Net cash provided (used) by operating activities	<u>(82,939)</u>
Cash Flows From Noncapital Financing Activities	
Transfers to (from) other funds	<u>506,679</u>
Cash Flows from Capital and Related Financing Activities	
Capital grants	79,126
Acquisition of and construction of capital assets	(124,193)
	<u>(45,067)</u>
Cash Flows From Investing Activities	
Investment earnings	<u>2,840</u>
Net cash used by investing activities	<u>2,840</u>
Net increase (decrease) in cash and cash equivalents	381,513
Cash and cash equivalents - beginning of year	<u>370,282</u>
Cash and cash equivalents - end of year	<u>\$ 751,795</u>
Unrestricted cash and cash equivalents	\$ 679,746
Restricted cash and cash equivalents	72,049
Total cash and cash equivalents	<u>\$ 751,795</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating Income	\$ (305,307)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	249,290
(Increase) decrease in accounts receivable	28,684
Increase (decrease) in accounts payable	(109,225)
(Increase) decrease in other receivables	42,725
Increase (decrease) in customer deposits	10,894
Net cash provided (used) by operating activities	<u>\$ (82,939)</u>
Noncash investing, capital, and financing activities:	
Contributions of capital assets	<u>\$ 692,188</u>

See Notes to Basic Financial Statements.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization

The City of Arcola, Texas, (the "City") was incorporated on January 19, 1981 under the provisions of the State of Texas. The City operates under a Council-Mayor form of government and provides the following services as authorized by its charter – public safety, maintenance and improvements to highways and streets, public improvements and general administrative services.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Arcola 4B Corporation, although legally separate, is considered a discretely presented component unit and is part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Units

City of Arcola 4B Development Corporation

The Arcola 4B Corporation was incorporated on December 29, 1995, as a non-profit corporation for the specific public purpose of benefitting and accomplishing public purposes of the City by promoting, assisting and having economic development activities as provided for in Section 4B of the Development Corporation Act of 1979. Arcola 4B is managed by a board of directors consisting of 7 members who serve two year terms. The City has the sole authority to appoint the Directors. The assets are managed by the Directors. The financial records are maintained by a consultant for the Directors. Separate financial statements are not issued for the Component Unit.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of net position and the Statement of Changes in Net Position) report information on all of the nonfiduciary activities of the primary government. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 segment and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus, as are the proprietary fund financial statements. The government-wide statements and proprietary fund statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes and franchise fees are recognized as revenues in the year that gives rise to the transaction. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as needed.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

Sales taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

The *capital projects fund* is used to account grant revenues and expenditures relating to construction activity benefitting both the governmental and business-type activities. The balances remaining in the fund represents reimbursements for grant expenditures advanced by the general fund.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the City's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The proprietary fund type used by the City includes the following:

Enterprise Funds

The enterprise funds are used to account for the operations that provide water and wastewater collection, wastewater treatment operations and solid waste collection and disposal. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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

The government-wide Statements of Net Position and Statements of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Government-wide and proprietary fund equity consists of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and deferred inflows of resources are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time. Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

D. Cash and temporary investments (Cash Equivalents)

The City's cash and temporary investments consist of demand accounts, money market accounts, petty cash and the Texas Local Government Investment Pool (TEXPOOL). TEXPOOL is an external investment pool established by Interlocal contracts under state law.

The City's agent bank is required to pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At year end, all deposits of the City and its component units were fully insured or collateralized by government obligation held in the City's name by the City's agent in accordance with Texas Law.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

E. Due to and from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivables and payables are, for the most part, eliminated from the Government-Wide Statement of Net Position and are recorded as “due from other funds” or “due to other funds” in the fund financial statements.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Water and Sewer fund have not been recognized as of the end of the year as they are considered immaterial.

G. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$10,000 or more and an estimated useful life in excess of two years. All purchased fixed assets are valued at cost where historical records exist. Donated fixed assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain and equipment are capitalized and Proprietary Fund fixed assets are depreciated over the remaining useful lives of the related fixed assets using the straight line method, as applicable.

<u>Asset Description</u>	
Buildings	40 Years
Furniture and Fixtures	3 to 20 Years
Machinery and equipment	5 to 20 Years
Vehicles	5 Years
Roads and Sidewalks	10 Years
Streets and Culverts	30 Years
Infrastructure	10 to 45 Years
Other Assets	10 Years
Sewage Treatment Plant	25 Years
Water and Sewer Service Lines	30 Years
Lift Stations	30 Years

H. Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Generally, such leave may be accumulated to the following year; however, at no time may unused sick leave be paid in monetary compensation either during employment or upon termination. Vacation pay accrues and becomes payable after one year of employment. Unused vacation pay can be applied toward emergency medical leave or it can be taken as time off, but otherwise it shall not accumulate, even upon termination. Therefore, compensated absences payable are not recorded.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

I. Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The City has one item that qualifies for this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

J. Use of Estimates

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

K. General property taxes

All taxes due to the City on real or personal property are payable at the Office of the County Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is October 1, or as soon thereafter as practical. Taxes are due upon receipt and all taxes not paid prior to February 1 are deemed delinquent and are subject to such penalty and interest set forth by the Property Tax Code. All property located within the City limits on the first day of January of each year are charged with a special lien in favor of the City from such date for taxes due thereon.

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

M. Pensions

The City has not established a pension plan

N. Restricted assets

Cash balances representing customer deposits are considered restricted from general use in the Water and Sewer Fund.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

O. Fund Equity

The City reports fund balances in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Restricted fund balance - amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for certain municipal court fees and retirement of fund indebtedness have been properly classified in the Governmental Funds Balance Sheet.

Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority. The City reports amounts assigned for construction activity in the Capital Projects Fund.

Unassigned fund balance – amounts that are available for any purpose.

The City has no formal fund balance policy which would identify targeted fund balance levels, or the sequence in which funds are to be spent.

P. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position for net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City has no formal policy when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, as to which funds are considered to have been spent first.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 Cash and Temporary Investments (Cash Equivalents)

The City's cash and investments are classified as cash and cash equivalents and investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, money market accounts and short-term investments in external public funds investment pool accounts (TEXPOOL).

Cash and Cash Equivalents

The City's agent bank is required to pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At year end, all deposits of the City and its component units were fully insured or collateralized by government obligation held in the City's name by the City's agent in accordance with Texas Law.

At year-end, the City had cash on hand, bank deposits, money market accounts and deposits with TEXPOOL as follows:

Fund	Cash on Hand	Bank Deposits	Cash Equivalent Investments	Totals
General Fund	\$ 3,074	\$ 1,739,809	\$ 512,675	\$ 2,255,558
Debt Service Fund		125,101		125,101
Capital Projects Fund		407,996		407,996
Total Governmental Activities	<u>\$ 3,074</u>	<u>\$ 2,272,906</u>	<u>\$ 512,675</u>	<u>\$ 2,788,655</u>
Water and Wastewater Utilities Fund	\$ 300	\$ 751,495	\$	\$ 751,795
Total Business-type Activities	<u>\$ 300</u>	<u>\$ 751,495</u>	<u>\$</u>	<u>\$ 751,795</u>
Total Primary Government	<u>\$ 3,374</u>	<u>\$ 3,024,401</u>	<u>\$ 512,675</u>	<u>\$ 3,540,450</u>

Custodial credit risk – deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. Collateral is required for all bank deposits at 100% of deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Collateral pledged to cover the City's deposits is required to be held in the City's name by the trust department of a bank other than the pledging bank. Collateral securities must bear Baa-1 or better rating to qualify for use in securing uninsured depository balances.

At September 30, 2015, the carrying amount of the City's cash and money market accounts were fully collateralized.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 Cash and Temporary Investments (Cash Equivalents)

Investments (cash equivalents)

The City of Arcola does not have a current investment policy.

State statutes authorize the City to invest in: 1) obligations of the U.S. or its agencies and instrumentalities; 2) obligations of the State of Texas or its agencies; 3) other obligations guaranteed by the U.S., the State of Texas or their agencies and instrumentalities; 4) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than “A” or its equivalent; 5) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas; 6) fully collateralized repurchase agreements; 7) a public funds investment pool meeting the requirements of Government Code 2256.016-2256.019; and, 8) commercial paper having received a rating of A1/P1 from a nationally recognized investment rating firm.

The Public Funds Investment Act (PFIA) governs the City’s investment policies and types of investment.

The City’s investments (cash equivalents) are in compliance with the authorized investments provided by the PFIA.

At September 30, 2015, the City had the following investments (cash equivalents):

Investment Type	Fair Value	Weighted Average Maturities (Days)
Money Market Mutual Fund	\$ 91,446	
TexPool*	512,675	40
Total Fair Value	<u>\$ 604,121</u>	

* Credit rating of A-1+ by Standard & Poors

The Texas Local Government Investment Pool (TEXPOOL) amounts are not evidenced by securities that exist in physical or book entry form and, accordingly, are not categorized by risk. However, the nature of these funds requires that they be used to purchase investments authorized by the Public Funds Investment Act. The primary objective of these investment pools is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments. The City considers the holdings in TEXPOOL to be redeemable within one day although the weighted average maturity days is 40. Weighted average maturity is determined and defined by the nature of the deposits in the pools, not by the account holder.

The State of Texas exercises oversight responsibility over TEXPOOL in accordance with state laws and the Public Funds Investment Act. Texpool is an external pool and operates in a manner consistent with SEC Rule 2a7 of the Investment Company Act of 1940. It is rated A-1+ by Standard Poor’s, the highest rating a local government investment pool can achieve. Net position is reported using amortized cost rather than fair value in computing share price. In accordance with TEXPOOL management policies, the net asset value will always be between .9965 and 1.0035. Accordingly, the fair value of the City’s position in the pool is the same as the value of the shares in the pool.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Cash and Temporary Investments (Cash Equivalents) (continued)

If at any time, pursuant to its daily calculation, the deviation between the amortized cost and market-determined values per share of the Portfolio's assets exceeds \$0.0030, the Co-Administrators shall promptly notify the Board. In the event that the deviation from amortized cost per share exceeds \$0.0040, the Board shall promptly hold a meeting and the Co-Administrators shall take action as directed by the Board. However, absent contrary instructions, the Co-Administrators shall promptly sell portfolio holdings, or will take such other action as the Board, or their delegates, may direct to eliminate or reduce to the extent reasonably practicable any dilution or unfair results to existing Unit holders.

Interest Rate Risk

Exposure to decline in fair values is managed by investments with a weighted average maturity of less than one year.

Credit Risk

Credit risk loss is minimized by investing with TEXPOOL and as such, limits the risk of loss due to custodial credit risk.

Note 4 - Property Taxes

Property taxes for each year are levied on approximately October 1 and are due upon receipt of the City's tax bill; they become delinquent on February 1 of the following year. On January 1 of each year, a tax lien is attached to the property to secure the payment of all taxes, penalties and interest. The lien exists in the favor of the State and each taxing unit. Appraised values are established by the Fort Bend Central Appraisal District (CAD), through procedures established by the Texas legislature. The County bills and collects property taxes on behalf of the City, and remits payment to the City on a frequent basis. The City bills its tax levies as soon as possible after certification of taxable values by the CAD, which is approximately October 1. Additional tax bills are sent December, February, April and July (which includes a surcharge for legal costs associated with collection). In August, delinquent taxes are turned over to the City's delinquent tax attorney for final collection or other disposition.

The City is permitted by Article XI, Section 5, of the State of Texas Constitution and the City Charter to levy property taxes up to \$2.50 per \$100 of assessed valuation for general governmental services. Within the \$2.50 maximum levy, there is no legal limit upon the amount of property taxes which can be levied for debt service. The property tax rates to finance general government services and debt service for the 2014-2015 fiscal year were \$0.753617 and \$0.15638 respectively, per \$100 of assessed valuation. The 2015 assessed value and total tax levy as adjusted through September 30, 2015 were \$88.4 million and \$780,908 respectively. The allowance for uncollectible accounts as of September 30, 2015 is estimated at \$54,301.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 5 - Receivables

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Enterprise Fund</u>	<u>Arcola 4B</u>	<u>Total</u>
Property taxes	\$ 108,861	\$ 16,781	\$	\$ 19,979	\$ 145,621
Other taxes	74,172				74,172
Accounts			141,889		141,889
Other governments			111,394	20,758	132,152
Total Receivable	<u>183,033</u>	<u>16,781</u>	<u>253,283</u>	<u>40,737</u>	<u>493,834</u>
Less: allowance for uncollectibles	<u>(48,969)</u>	<u>(5,062)</u>	<u>(95,792)</u>		<u>(149,823)</u>
Net Receivable	<u>\$ 134,064</u>	<u>\$ 11,719</u>	<u>\$ 157,491</u>	<u>\$ 40,737</u>	<u>\$ 344,011</u>

Note 6 - Interfund Balances and Transfers

Interfund balances at September 30, 2015, were as follows:

	<u>Receivable Fund</u>			
<u>Payable Fund</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Water Sewer Fund</u>	<u>Totals</u>
General Fund	\$	\$ 6,193	\$	\$ 6,193
Capital Projects Fund	42,132			42,132
Water/Sewer Fund	<u>426,986</u>		<u>9,575</u>	<u>436,561</u>
	<u>\$ 469,118</u>	<u>\$ 6,193</u>	<u>9,575</u>	<u>\$ 484,886</u>

Amounts reported as “due to/from” are considered to be temporary loans and will be repaid during the following fiscal year.

Transfers between the primary government funds during the year were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
General fund	Capital Projects	\$ 55,000
Capital Projects	Debt Service	20,000
Capital Projects	Water Sewer Fund	<u>272,198</u>
		<u>\$ 347,198</u>

The general fund made transfers to the capital projects funds for expenditures made in the capital projects fund.

The capital projects funds made transfers to the debt service fund for a portion of the interest on the 2013 Certificate of Obligation. The capital projects funds transferred completed assets and cash for expenditures made on water sewer projects.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets

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

	Balance			Balance
	9/30/2014	Additions	(Transfers Retirements)	9/30/2015
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 153,248	\$	\$	153,248
Construction in progress	588,751	103,437	(692,188)	
Total capital assets, not being depreciated	<u>741,999</u>	<u>103,437</u>	<u>(692,188)</u>	<u>153,248</u>
Other capital assets:				
Buildings and improvements	270,125			270,125
Machinery and equipment	381,580	54,141	(172,659)	263,062
Infrastructure	2,074,799			2,074,799
Total other capital assets	<u>2,726,504</u>	<u>54,141</u>	<u>(172,659)</u>	<u>2,607,986</u>
Less accumulated depreciation for:				
Buildings and improvements	(141,908)	(6,753)		(148,661)
Machinery and equipment	(371,330)	(12,276)	172,659	(210,947)
Infrastructure	(2,074,799)			(2,074,799)
Total accumulated depreciation	<u>(2,588,037)</u>	<u>(19,029)</u>	<u>172,659</u>	<u>(2,434,407)</u>
Total other capital assets , net	<u>138,467</u>	<u>35,112</u>		<u>173,579</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 880,466</u>	<u>\$ 138,549</u>	<u>\$ (692,188)</u>	<u>\$ 326,827</u>

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

Governmental Activities	
Administrative	\$ 15,555
Police Department	<u>3,474</u>
Total depreciation expense - governmental activities	<u>\$ 19,029</u>

Additions to the governmental activities capital assets for the 2015 fiscal year included a police vehicle and completion of the waterline projects.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets (continued)

A summary of changes in capital assets for business-type activities as of September 30, 2015, is as follows:

	Balance		Transfers	Balance
	9/30/2014	Additions	(Retirements)	9/30/2015
Business-Type Activities				
Capital assets, not being depreciated:				
Construction in progress	\$ 4,219,180	\$ 124,193	\$ (4,154,397)	\$ 188,976
Total capital assets, not being depreciated	<u>4,219,180</u>	<u>124,193</u>	<u>(4,154,397)</u>	<u>188,976</u>
Other capital assets:				
Machinery and equipment	21,165			21,165
Water and sewer system	7,105,421	4,154,397	692,190	11,952,008
Total other capital assets	<u>7,126,586</u>	<u>4,154,397</u>	<u>692,190</u>	<u>11,973,173</u>
Less accumulated depreciation for:				
Machinery and equipment	(15,645)	(4,233)		(19,878)
Water and sewer system	(2,319,561)	(245,057)		(2,564,618)
Total accumulated depreciation	<u>(2,335,206)</u>	<u>(249,290)</u>		<u>(2,584,496)</u>
Total other capital assets, net	<u>4,791,380</u>	<u>3,905,107</u>	<u>692,190</u>	<u>9,388,677</u>
Total business-type activities	<u>\$ 9,010,560</u>	<u>\$ 4,029,300</u>	<u>\$ (3,462,207)</u>	<u>\$ 9,577,653</u>

Construction in progress at year-end is for engineering and planning for the waste water treatment plant project planned for FY 2017.

Note 8 - Long-Term Debt

The City issues long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for governmental and business-type activities. The City currently has issued and outstanding, certificates of obligations which are secured by future ad valorem tax revenues.

The following is a summary of the terms of certificates of obligation outstanding as of September 30, 2015:

Description	Original Issue	Maturity Date	Interest Rates	Debt Outstanding
Governmental Activities				
Certificates of Obligation				
Series 2008A	1,380,000	3/1/2038	2.10-4.80%	\$ 1,195,000
Series 2008B	400,000	3/1/2028	0.0%	260,000
Series 2013	2,000,000	9/1/2053	2.00%	2,000,000
Total Certificates of Obligation				<u>3,455,000</u>
Total Governmental Activities Long-Term Debt				<u>\$ 3,455,000</u>

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Annual debt service requirements to retire outstanding certificates of obligation are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2016	\$ 85,000	\$ 92,610	\$ 177,660
2017	90,000	90,771	180,771
2018	90,000	88,803	178,803
2019	95,000	86,732	181,732
2020	95,000	84,558	179,558
2021-2025	515,000	385,803	900,803
2026-2030	540,000	313,167	853,167
2031-2035	575,000	222,016	797,016
2036-2040	510,000	114,911	624,911
2041-2045	305,000	70,950	375,950
2046-2050	335,000	39,050	374,050
2051-2053	220,000	6,700	226,700
	<u>\$ 3,455,000</u>	<u>\$ 1,596,071</u>	<u>\$ 5,051,121</u>

Long-term activity for the year ended September 30, 2015 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable	\$ 3,505,000		(50,000)	\$ 3,455,000	85,000
Governmental Activities	<u>\$ 3,505,000</u>	<u>\$</u>	<u>\$ (50,000)</u>	<u>\$ 3,455,000</u>	<u>\$ 85,000</u>

Long term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds.

Note 9 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, automobile, boiler and machinery, errors and omissions and workers compensation coverage. The City, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

CITY OF ARCOLA, TEXAS

NOTES TO FINANCIAL STATEMENTS (continued)

Note 10 - Sewage Disposal Contract

Effective September 28, 2004, the City entered into a Sewage Disposal Contract (the "Contract") with Fort Bend County Municipal Utility District No. 141 (the "District"), and amended and restated September 3, 2009. Pursuant to the contract, the District paid the City \$100,000 representing historic capital costs of the City's sewage treatment plant. In addition, the District paid the City a \$500; an initial security deposit of \$4,500 and a tap fee of \$750. The District shall have the right to use or benefit from increased lift station capacity (up to peak lift station pumping rate of 150 GPM or 60% of the lift station's safe pumping capacity, whichever is lower) and to the sewage treatment plant site. The District shall not be considered a participant in the Regional Contract unless this contract is amended. The District must pay all costs of expanding or enlarging all components of the City Wholesale System that may be required to provide for any increased contract quantity. The District must extend its force main to a new delivery point on the sewage treatment plant site before delivery can exceed 64,000 GPD.

The District shall be responsible for construction of its system. The District system shall be owned and controlled by the District. The District's initial contract quantity is 10,000 GPD and can be reduced or increased by amendment to the contract.

Note 11 - Regional Facilities Contract

On August 18, 2005, the City entered into a Regional Facilities Contract (Contract) with Fort Bend County Fresh Water Supply District No. 1 (the "District") for the provision of water and wastewater service. The Regional Sewage System (RSS), including the initial expansion, is owned and operated by the City. The District will own, operate and be responsible for the construction of the facilities necessary to connect to the RSS.

The Contract states that the District will pay a portion of those RSS expenses directly attributable to the RSS, plus an administrative overhead fee not to exceed 20% of the District's portion of total RSS expenses. These RSS expenses are prorated based on relative capacity in the RSS. The District will also pay a portion of Variable RSS expenses based on the ratio of metered flow to the District versus total discharge.

The Contract also provides for the design and construction of the Regional Water System (Water System) to provide water service to both the District and the City. The District and the City will cooperate, as necessary, to obtain funding for the design and construction of the Water System. Those portions of the Water system upstream of the water point of delivery plus the measuring equipment will be owned and maintained by the District and those portions downstream will be owned and maintained by the City.

The Contract establishes a Regional Plant Committee and includes a representative appointed by the governing body of each participant. The term of this contract originally expired June 30, 2044. The Second Amendment to the Contract, effective September 12, 2012, extended the term of the Contract through September 30, 2053.

The Third Amendment to the Agreement is effective December 20, 2012, and relates to the Regional Water System (RWS). The District has designed and constructed the portion of Segment One of the RWS on its side of the water point of distribution. The City has designed and is constructing the portion of Segment One on its side of the point of distribution. A portion of the RWS will be funded by a 2006 Environmental Protection Agency (EPA) State and Tribal Assistance Grant (STAG) and a 2008 EPA STAG grant for \$478,000, both passed through Fort Bend County. The District and the City will each be responsible for half the matching requirement for each EPA STAG grant.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 11 - Regional Facilities Contract (continued)

The City may receive water upon completion of Segment One. The City will make installment payments to the District toward payment of the City Share of Segment One \$632,789.49 less the credited sum of \$240,550, representing the City Share of the 2005 EPA STAG grant. The monthly installments began July 1, 2014 at \$1,000 per month, then \$3,000 per month beginning July 1, 2015 and \$5,000 per month beginning July 1, 2016 and are essentially maintenance and operation expenses for the RWS and RSS. Installments will continue until the City’s payment for Segment One is complete or until the City triggers an expansion of the RWS under the terms of the agreement.

The City’s share of the RWS is staged beginning with the date the RWS is placed in operation and is measured in single family equivalents (SFE) based on 410 gallons per average day each plus fire flows and lost water. The City’s share is outlined as follows:

Year	SFE
One	50
Two	100
Three	200
Four	400
Five and thereafter	500

The City will be billed for costs of reading and maintaining the meter, plus a part of the variable water expenses based on the ratio of City water usage, plus a part of all other water expenses based on the City average quarterly usage.

The City may proceed with a Second Source Segment to extend its water system. The City will design and construct the Second Source Segment. The District will make installment payments to the City toward payment of the District Share of the Second Source Segment less the unpaid portion of installment payments due from the City for Segment One. The monthly installments will begin two years from the start date at \$1,000 per month for the first year, then \$3,000 per month for the second year and \$5,000 per month until the District Share in the Second Source Segment is paid. Upon completion of a Second Source Segment, the delivery system becomes a Two-Way System. In an Emergency, either party may receive water via the Two-Way System. Water is metered and billed at a mutual rate per thousand gallons. The mutual rate is the average of the rate per thousand gallons paid by a City customer and a District customer, each using 8,000 gallons of water per month.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 12 - Significant Legal Requirements

The Certificate of Obligation Ordinances state that the City is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the City to the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

The City has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.

The City has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.

The certificate ordinances state that so long as any of the certificates are outstanding, the City covenants to maintain insurance on such parts of the system as are usually insured by cities in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risk, accidents or casualties against which and to the extent insurance is usually carried by such cities.

Note 13 - Prior Period Adjustment

The beginning fund balance of the General Fund and Capital Projects Fund have been restated on the fund financial statements to correct payables balances that were incorrectly posted in a prior year. As a result, the beginning net position of the Governmental Activities in the government-wide financial statements have been similarly restated. A reconciliation of the prior period ending fund balance / net position to the current year beginning fund balance / net position for both funds is as follows:

	<u>Fund Based Financial Statements</u>			<u>Governmental Activities</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	
Beginning fund balance / net position	\$ 2,358,741	\$ 452,004	\$ 2,810,745	\$ 420,696
Adjustment to correct improper posting of accounts payable in previous years	<u>(26,539)</u>	<u>52,162</u>	<u>25,623</u>	<u>25,623</u>
Beginning fund balance / net position, as restated	<u>\$ 2,332,202</u>	<u>\$ 504,166</u>	<u>\$ 2,836,368</u>	<u>446,319</u>

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ARCOLA, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

For the Year Ended September 30, 2015

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Positive (Negative)
Revenues				
Taxes:				
Property	\$ 673,000	\$ 673,000	\$ 704,088	\$ 31,088
Sales	382,500	382,500	431,700	49,200
Franchise	45,000	45,000	50,878	5,878
Licenses and permits	17,000	17,000	40,370	23,370
Intergovernmental			2,194	2,194
Fines and forfeitures	197,750	197,750	217,590	19,840
Investment earnings	2,800	2,800	4,552	1,752
Other revenues	4,595	4,595	18,927	14,332
Total Revenues	<u>1,322,645</u>	<u>1,322,645</u>	<u>1,470,299</u>	<u>147,654</u>
Expenditures				
Current:				
General government	565,935	565,935	545,411	20,524
Municipal court	140,610	140,610	106,078	34,532
Public safety	411,100	411,100	396,456	14,644
Total Expenditures	<u>1,117,645</u>	<u>1,117,645</u>	<u>1,047,945</u>	<u>69,700</u>
Revenues over (under) expenditures	205,000	205,000	422,354	217,354
Other Financing Sources (Uses)				
Transfers out	(205,000)	(205,000)	(55,000)	150,000
Sale of capital assets			2,600	2,600
Total other financing sources (uses)	<u>(205,000)</u>	<u>(205,000)</u>	<u>(52,400)</u>	<u>152,600</u>
Changes in fund balance			369,954	369,954
Fund Balance - Beginning of Year	<u>2,332,202</u>	<u>2,332,202</u>	<u>2,332,202</u>	
Fund Balance - End of Year	<u>\$ 2,332,202</u>	<u>\$ 2,332,202</u>	<u>\$ 2,702,156</u>	<u>\$ 369,954</u>

CITY OF ARCOLA, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended September 30, 2015

Annual budgets are adopted on a modified accrual basis of accounting for all of the City's funds. Annual appropriations lapse at fiscal year-end.

The Finance department is responsible for producing, monitoring, and reporting the City's annual operating budget. The City of Arcola operates a fiscal year beginning October 1 through September 30 annually.

Each spring, the staff begins the annual process to determine the needs of the city. The requests are based on the programs and priorities that the city council has discussed or committed to in the past. A recommended budget is formed based on the projected revenue and submitted to the citizens and the city council. After input from the public and the staff the council has the opportunity to revise the budget to conform to its objectives.

Public hearings regarding the budget and tax rate are held in August/September and are open to the public. The city budget contains several different funds with the largest being the general fund which is used for general government services that do not need to be accounted for separately. Examples of general government services include public safety, street maintenance, and administrative activities.

Once adopted, the budget takes effect on the first of the fiscal year (October 1) and any major changes must be approved by the city council.