

**CITY OF ARCOLA, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**Year Ended September 30, 2016**





**CITY OF ARCOLA, TEXAS**  
***PRINCIPAL OFFICIALS***

**Governing Body**

Mary Etta Anderson	Mayor
Florence Jackson	Council Member - Mayor Pro-Tem
Greg Abarr	Council Member
Evelyn Jones	Council Member
Rosie Rojas	Council Member
Glenn Sanco	Council Member

**Other Principal Officials**

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 (the “City”) 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.

### *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, 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 and certain required pension system information on pages 3-8 and 40-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2017, on our consideration of the City's 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.

*Whitley Penn LLP*

Houston, Texas  
August 14, 2017



## **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, 2016.

#### **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 and Pension Plan Contributions - TMRS. Required supplementary information can be found on pages 40 through 42 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, assets and deferred outflows of resources exceeded liabilities by \$10.2 million as of September 30, 2016.

By far the largest portion of the City's net position (63%) 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, 2016 and 2015*

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 3,752,956	\$ 3,351,849	\$ 529,641	\$ 491,875	\$ 4,282,597	\$ 3,843,724
Capital assets	407,906	326,827	9,424,108	9,577,653	9,832,014	9,904,480
<b>Total Assets</b>	<u>4,160,862</u>	<u>3,678,676</u>	<u>9,953,749</u>	<u>10,069,528</u>	<u>14,114,611</u>	<u>13,748,204</u>
<b>Deferred Outflows of Resources</b>						
Pension related	13,877				13,877	
Current and other liabilities	236,563	104,541	315,852	221,195	552,415	325,736
Long-term liabilities	3,370,000	3,455,000			3,370,000	3,455,000
<b>Total Liabilities</b>	<u>3,606,563</u>	<u>3,559,541</u>	<u>315,852</u>	<u>221,195</u>	<u>3,922,415</u>	<u>3,780,736</u>
<b>Net position:</b>						
Net investment in capital assets	(2,962,094)	(3,128,173)	9,424,108	9,577,653	6,462,014	6,449,480
Restricted	269,217	209,180			269,217	209,180
Unrestricted	3,261,053	3,038,128	213,789	270,680	3,474,842	3,308,808
<b>Total Net Position</b>	<u>\$ 568,176</u>	<u>\$ 119,135</u>	<u>\$ 9,637,897</u>	<u>\$ 9,848,333</u>	<u>\$ 10,206,073</u>	<u>\$ 9,967,468</u>

An additional portion of the City's net position, \$269,217, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$3.5 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, 2016, 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, 2016:

**CONDENSED SCHEDULE OF ACTIVITIES**

*September 30, 2016 and 2015*

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Revenues</b>						
Program revenue:						
Charges for services	\$ 342,738	\$ 257,960	\$ 796,454	\$ 507,290	\$ 1,139,192	\$ 765,250
Operating grants and contributions	971	1,293			971	1,293
Capital grants and contributions		246,572	190,678	79,126	190,678	325,698
General revenues:						
Property taxes	836,308	781,882			836,308	781,882
Sales taxes	369,991	431,700			369,991	431,700
Franchise taxes	48,813	50,878			48,813	50,878
Investment earnings	1,816	5,871	86	2,840	1,902	8,711
Other revenues	21,606	19,828			21,606	19,828
Gain on disposal of asset		2,600				2,600
<b>Total Revenues</b>	<b>1,622,243</b>	<b>1,798,584</b>	<b>987,218</b>	<b>589,256</b>	<b>2,609,461</b>	<b>2,387,840</b>
<b>Expenses:</b>						
General government	332,161	302,716			332,161	302,716
Public safety	445,186	384,939			445,186	384,939
Public works	158,979	219,100			158,979	219,100
Municipal court	143,766	106,078			143,766	106,078
Interest on long-term debt	93,110	93,549			93,110	93,549
Water and sewer			1,197,654	812,597	1,197,654	812,597
<b>Total Expenses</b>	<b>1,173,202</b>	<b>1,106,382</b>	<b>1,197,654</b>	<b>812,597</b>	<b>2,370,856</b>	<b>1,918,979</b>
Increase in net position before transfers	449,041	692,202	(210,436)	(223,341)	238,605	468,861
Transfers		(1,019,386)		1,019,386		
Change in net position	449,041	(327,184)	(210,436)	796,045	238,605	468,861
<b>Net Position - beginning</b>	<b>119,135</b>	<b>446,319</b>	<b>9,848,333</b>	<b>9,052,288</b>	<b>9,967,468</b>	<b>9,498,607</b>
<b>Net Position - ending</b>	<b>\$ 568,176</b>	<b>\$ 119,135</b>	<b>\$ 9,637,897</b>	<b>\$ 9,848,333</b>	<b>\$ 10,206,073</b>	<b>\$ 9,967,468</b>

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

**Governmental activities**

For the year ended September 30, 2016, revenues from governmental activities totaled \$1.6 million. Overall, governmental revenues decreased by 10% from the prior year due to a reduction in capital grants. Charges for services increased by 33%. Municipal Court revenues were lower due to a vacancy in the police department which led 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, 2016, expenses for governmental activities totaled \$1.2 million, which represents an increase of 6% from the previous year. The rise in expenses is attributable to increased personnel costs in police and municipal court departments, along with increases in legal, engineering and fire protection costs offset by a decrease in street maintenance.

**Business-type activities**

Charges for services for business-type activities increased \$289,164 or 57% 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 47%. 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 \$3.5 million. Of this amount, \$123,007 is restricted for the City's Municipal Court Technology and Security funds. \$143,036 is restricted for debt service and \$356,345 is assigned for capital projects.

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 \$2.8 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 2.4 times the total general fund expenditures. The general fund demonstrated an overall increase of \$264,033 primarily due to an increase in the fines and forfeitures revenues.

*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 estimated revenues by \$155,731 and expenditures and transfers out were less than appropriations by \$153,302 resulting in an ending fund balance that was \$309,033 higher than anticipated.

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

**Capital Assets**

The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of September 30, 2016 amounted to \$0.4 million and \$9.4 million 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<b>Governmental Activities</b>		
Capital assets, not being depreciated:		
Land	\$ 153,248	\$ 153,248
Construction in progress		
Capital assets net of depreciation		
Buildings and improvements	114,692	121,464
Machinery and equipment	139,966	52,115
Total capital assets - net of depreciation	<u>\$ 407,906</u>	<u>\$ 326,827</u>
<b>Business-Type Activities</b>		
Capital assets, not being depreciated:		
Construction in progress	\$ 329,561	\$ 188,976
Capital assets net of depreciation		
Machinery and equipment		1,287
Water and sewer system	9,094,547	9,387,390
Total capital assets - net of depreciation	<u>\$ 9,424,108</u>	<u>\$ 9,577,653</u>

**Long-term liabilities**

The City's long-term debt consists of bonds payable ultimately maturing in 2053, a summary of which follows:

	<u>2016</u>	<u>2015</u>
Bonds Payable	<u>\$ 3,370,000</u>	<u>\$ 3,455,000</u>

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 2017 budget. The approved budget includes estimated revenues and appropriations of \$1.47 million or 1.2% higher than the 2016 operating budget. The City has passed an effective tax rate of \$.867368 per \$100 of property value, down from a tax rate of \$.910000.

**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, 2016

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Arcola 4B Corporation</b>
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 2,596,632	\$ 803,298	\$ 3,399,930	\$ 707,426
Investments	514,232		514,232	
Receivables, net	154,331	46,180	200,511	23,018
Internal balances	487,761	(487,761)		
Due from primary government				140,305
Due from other governments		95,875	95,875	
Restricted:				
Cash and cash equivalents - customer deposits		72,049	72,049	
<b>Total Current assets</b>	<b>3,752,956</b>	<b>529,641</b>	<b>4,282,597</b>	<b>870,749</b>
<b>Capital assets:</b>				
Non-depreciable capital assets	153,248	329,561	482,809	
Depreciable capital assets, net	254,658	9,094,547	9,349,205	
<b>Total Noncurrent assets</b>	<b>407,906</b>	<b>9,424,108</b>	<b>9,832,014</b>	
<b>Total Assets</b>	<b>4,160,862</b>	<b>9,953,749</b>	<b>14,114,611</b>	<b>870,749</b>
<b>Deferred Outflows of Resources</b>				
Deferred outflows - pension related	13,877		13,877	
<b>Total Deferred Outflows of Resources</b>	<b>13,877</b>		<b>13,877</b>	
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued expenses	96,258	243,381	339,639	
Customer deposits		72,471	72,471	
Due to component unit	140,305		140,305	
<b>Total current liabilities</b>	<b>236,563</b>	<b>315,852</b>	<b>552,415</b>	
<b>Long-term liabilities:</b>				
Due within one year	90,000		90,000	
Due in more than one year	3,280,000		3,280,000	
<b>Total long-term liabilities</b>	<b>3,370,000</b>		<b>3,370,000</b>	
<b>Total Liabilities</b>	<b>3,606,563</b>	<b>315,852</b>	<b>3,922,415</b>	
<b>Net Position</b>				
Net investment in capital assets	(2,962,094)	9,424,108	6,462,014	
Restricted for:				
Court security and technology	123,007		123,007	
Debt Service	146,210		146,210	
Unrestricted	3,261,053	213,789	3,474,842	870,749
<b>Total Net Position</b>	<b>\$ 568,176</b>	<b>\$ 9,637,897</b>	<b>\$ 10,206,073</b>	<b>\$ 870,749</b>

See Notes To Basic Financial Statements.

**CITY OF ARCOLA, TEXAS**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended September 30, 2016*

<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>
<b>Primary government</b>				
<b>Governmental Activities:</b>				
Administrative	\$ 332,161	\$ 35,170	\$	\$
Police Department	445,186		971	
Public works	158,979			
Municipal court	143,766	307,568		
Interest on long-term debt	93,110			
<b>Total governmental activities</b>	<u>1,173,202</u>	<u>342,738</u>	<u>971</u>	
<b>Business-Type Activities:</b>				
Water and Sewer Operations	<u>1,197,654</u>	<u>796,454</u>		<u>190,678</u>
<b>Total Primary Government</b>	<u>2,370,856</u>	<u>1,139,192</u>	<u>971</u>	<u>190,678</u>
<b>Component Units</b>				
Arcola 4B Corporation	<u>\$ 1,220</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>General revenues:</b>				
Taxes:				
Property taxes				
Sales tax				
Franchise taxes				
Investment earnings				
Other revenues				
<b>Total general revenues</b>				
Change in net position				
<b>Net Position - beginning</b>				
<b>Net Position - ending</b>				

*See Notes to Basic Financial Statements.*

<b>Net Revenue (Expense) and Changes in Net Position</b>			
<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Arcola 4B Corporation</b>
\$ (296,991)		\$ (296,991)	
(444,215)		(444,215)	
(158,979)		(158,979)	
163,802		163,802	
(93,110)		(93,110)	
<u>(829,493)</u>		<u>(829,493)</u>	
	(210,522)	(210,522)	
<u>(829,493)</u>	<u>(210,522)</u>	<u>(1,040,015)</u>	
			\$ (1,220)
836,308		836,308	
369,991		369,991	122,589
48,813		48,813	
1,816	86	1,902	2,382
21,606		21,606	
<u>1,278,534</u>	<u>86</u>	<u>1,278,620</u>	<u>124,971</u>
449,041	(210,436)	238,605	123,751
119,135	9,848,333	9,967,468	746,998
<u>\$ 568,176</u>	<u>\$ 9,637,897</u>	<u>\$ 10,206,073</u>	<u>\$ 870,749</u>

**CITY OF ARCOLA, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

*September 30, 2016*

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 2,637,830	\$ 135,332	\$ 337,702	\$ 3,110,864
Receivables, net	142,198	12,133		154,331
Due from other funds	469,118	6,193	60,774	536,085
<b>Total Assets</b>	<u>\$ 3,249,146</u>	<u>\$ 153,658</u>	<u>\$ 398,476</u>	<u>\$ 3,801,280</u>
<b>Liabilities</b>				
Accounts payable	\$ 88,810	\$	\$	\$ 88,810
Due to other funds	6,193		42,131	48,324
Due to component units	140,305			140,305
<b>Total Liabilities</b>	<u>235,308</u>		<u>42,131</u>	<u>277,439</u>
<b>Deferred Inflows of Resources</b>				
Unavailable property taxes	47,649	10,622		58,271
<b>Total Deferred Inflows of Resources</b>	<u>47,649</u>	<u>10,622</u>		<u>58,271</u>
<b>Fund balances</b>				
Restricted for:				
Debt service		143,036		143,036
Court security and technology	123,007			123,007
Assigned			356,345	356,345
Unassigned	2,843,182			2,843,182
<b>Total Fund Balances</b>	<u>2,966,189</u>	<u>143,036</u>	<u>356,345</u>	<u>3,465,570</u>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<u>\$ 3,249,146</u>	<u>\$ 153,658</u>	<u>\$ 398,476</u>	<u>\$ 3,801,280</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, 2016**

Total fund balance, governmental funds \$ 3,465,570

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. 407,906

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. 58,271

Outflows of resources relating to pension plan activity are recognized as expenditures in the governmental fund financial statements when payments are made but are reported as deferred in the governmental activities of the statement of net position. 13,877

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 (3,370,000)  
Accrued long-term interest (7,448)

Net Position of Governmental Activities in the Statement of Net Position \$ 568,176

*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, 2016*

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Funds</u>
<b>Revenues</b>				
Taxes:				
Property	\$ 653,211	\$ 188,509	\$	\$ 841,720
Sales	369,991			369,991
Franchise	48,813			48,813
Licenses and permits	35,170			35,170
Intergovernmental	971			971
Fines and forfeitures	307,568			307,568
Investment earnings	1,751	9	56	1,816
Other revenues	21,606			21,606
<b>Total Revenues</b>	<u>1,439,081</u>	<u>188,518</u>	<u>56</u>	<u>1,627,655</u>
<b>Expenditures</b>				
Current:				
General Administration	322,798			322,798
Police Department	440,157			440,157
Municipal Court	145,919			145,919
Capital Outlay	103,055			103,055
Debt Service:				
Principal		85,000		85,000
Interest		93,110		93,110
<b>Total Expenditures</b>	<u>1,175,048</u>	<u>178,110</u>		<u>1,353,158</u>
 Net Changes in Fund Balances	 264,033	 10,408	 56	 274,497
 <b>Fund Balances - beginning of year</b>	 <u>2,702,156</u>	 <u>132,628</u>	 <u>356,289</u>	 <u>3,191,073</u>
<b>Fund Balances - end of year</b>	<u>\$ 2,966,189</u>	<u>\$ 143,036</u>	<u>\$ 356,345</u>	<u>\$ 3,465,570</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, 2016*

Net change in fund balances - total governmental funds: \$ 274,497

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 \$103,055 exceeded depreciation of \$21,976 in the current period. 81,079

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. (5,412)

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. 85,000

Governmental funds report the payment of pension contributions as an expenditure. In contrast, the statement of activities treats such payments as a reduction in net pension liability. 13,877

Change in net position of governmental activities \$ 449,041

*See Notes to Basic Financial Statements.*

**CITY OF ARCOLA, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
*September 30, 2016*

	<b>Water and Sewer Fund</b>
<b>Assets</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 803,298
Accounts receivable, net	46,180
Due from other governments	95,875
Restricted assets:	
Cash and cash equivalents - customer deposits	72,049
<b>Total current assets</b>	<u>1,017,402</u>
<b>Noncurrent assets:</b>	
Capital assets:	
Land	
Construction in progress	329,561
Infrastructure	12,012,726
Equipment	21,165
Less accumulated depreciation	<u>(2,939,344)</u>
<b>Total noncurrent assets</b>	<u>9,424,108</u>
<b>Total Assets</b>	<u><u>\$ 10,441,510</u></u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 243,381
Customer deposits	72,471
Due to other funds	<u>487,761</u>
<b>Total Liabilities</b>	<u>803,613</u>
<b>Net Position</b>	
Investment in capital assets	9,424,108
Unrestricted	<u>213,789</u>
<b>Total Net Position</b>	<u><u>\$ 9,637,897</u></u>

*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, 2016*

	<b>Water and Sewer Fund</b>
	<u>                    </u>
<b>Operating Revenues</b>	
Charges for sales and services	\$ 796,454
<b>Operating Expenses</b>	
Administrative	52,710
Professional Fees	21,068
Contractual services	94,255
Other operating	334,848
Purchased Water	61,314
Maintenance and Repairs	202,907
Utilities	75,704
Depreciation	354,848
	<u>1,197,654</u>
<b>Operating income (loss)</b>	<u>(401,200)</u>
<b>Non-Operating Revenues</b>	
Investment earnings	86
<b>Total Non-Operating Revenues</b>	<u>86</u>
Income (loss) before capital contributions	(401,114)
Capital contributions	<u>190,678</u>
Change in Net Position	(210,436)
<b>Total Net Position - beginning of year</b>	<u>9,848,333</u>
<b>Total Net Position - end of year</b>	<u><u>\$ 9,637,897</u></u>

*See Notes to Basic Financial Statements.*

**CITY OF ARCOLA, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUND**  
*For the Year Ended September 30, 2016*

	<b>Water and Sewer Fund</b>
<b>Cash Flows From Operating Activities</b>	
Receipts from customers and users	\$ 812,312
Payments to suppliers	(748,571)
<b>Net cash provided (used) by operating activities</b>	<u>63,741</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Transfers to (from) other funds	<u>70,350</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Capital grants	190,678
Acquisition of and construction of capital assets	(201,303)
<b>Net cash flows (used) by capital and related financing activities</b>	<u>(10,625)</u>
<b>Cash Flows From Investing Activities</b>	
Investment earnings	<u>86</u>
<b>Net cash from investing activities</b>	<u>86</u>
Net increase (decrease) in cash and cash equivalents	123,552
<b>Cash and cash equivalents - beginning of year</b>	<u>751,795</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 875,347</u>
Unrestricted cash and cash equivalents	\$ 803,298
Restricted cash and cash equivalents	<u>72,049</u>
<b>Total cash and cash equivalents</b>	<u>\$ 875,347</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating Income	\$ (401,200)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	354,848
(Increase) decrease in accounts receivable	(83)
Increase (decrease) in accounts payable	94,235
(Increase) decrease in other receivables	15,519
Increase (decrease) in customer deposits	<u>422</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 63,741</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 1986 under the provisions of the State of Texas. The City operates as a General Law City form of government with a Mayor and five Councilmembers. The City provides the following services 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 Activities) 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 TEXPOOL balances are reported at amortized cost as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

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.

**Note 2 - Summary of Significant Accounting Policies (continued)**

**I. 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 has the following item that qualifies for reporting in this category:

- Deferred outflows of resources for pension activities – Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made prior to the first measurement date of the net pension liability. The deferred outflows of resources related to pensions resulting from these City contributions will be recognized as a reduction of the net pension liability in the next fiscal year.

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 or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following item that qualifies for reporting in 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. Pensions**

Effective March 1, 2016 the City began to participate in the Texas Municipal Retirement System (TMRS). The calculation of the City's first pension liability and additions to/deductions from TMRS's Fiduciary Net Position will be determined on the same basis as they are reported by TMRS and has occurred for the plan year ended December 31, 2016. 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.

Because the measurement of the net pension liability follows the pension plan's fiscal year end which is after the City's fiscal year end, no pension liabilities are presented in the City's financial statements.

**K. 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.



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

**Note 2 - Summary of Significant Accounting Policies (continued)**

**L. 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.

**M. 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.

**N. Restricted assets**

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

**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 and balances with TEXPOOL as follows:

<b>Fund</b>	<b>Cash on Hand</b>	<b>Bank Deposits</b>	<b>Cash Equivalent Investments</b>	<b>Totals</b>
General Fund	\$ 3,074	\$ 2,120,524	\$ 514,232	\$ 2,637,830
Debt Service Fund		135,332		135,332
Capital Projects Fund		337,702		337,702
Total Governmental Activities	<u>\$ 3,074</u>	<u>\$ 2,593,558</u>	<u>\$ 514,232</u>	<u>\$ 3,110,864</u>
Water and Wastewater Utilities Fund	\$ 300	\$ 875,047	\$	\$ 875,347
Total Business-type Activities	<u>\$ 300</u>	<u>\$ 875,047</u>	<u>\$</u>	<u>\$ 875,347</u>
Total Primary Government	<u>\$ 3,374</u>	<u>\$ 3,468,605</u>	<u>\$ 514,232</u>	<u>\$ 3,986,211</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, 2016, the carrying amount of the City's cash deposits 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 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, 2016, the City had the following investments (cash equivalents):

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturities (Days)</b>
TexPool*	514,232	40
Total Fair Value	<u>\$ 514,232</u>	

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

TEXPOOL policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act (PFIA) of 1987, as amended. The Texas State Comptroller of Public Accounts has oversight responsibility for TEXPOOL. TEXPOOL is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer.

The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TEXPOOL. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TEXPOOL uses amortized cost rather than fair value to report net position to compute share prices. The fair value of the position in TEXPOOL is the same as the value of TEXPOOL shares.

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

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

Accordingly, the City's investments in TEXPOOL are stated at cost, which approximates fair value. TEXPOOL is currently rated AAAM by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, TEXPOOL does not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

**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. Fort Bend 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 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 2015-16 fiscal year were \$0.703944 and \$0.20606 respectively, per \$100 of assessed valuation. The 2015 assessed value and total tax levy as adjusted through September 30, 2015 were \$86.8 million and \$770,035 respectively. The allowance for uncollectible property taxes as of September 30, 2016 is estimated at \$55,026.

**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	\$ 102,333	\$ 18,042	\$	\$	\$ 120,375
Other taxes	83,288			23,018	106,306
Accounts	5,694		141,972		147,666
Other governments			95,875	140,305	236,180
<b>Total Receivable</b>	<u>191,315</u>	<u>18,042</u>	<u>237,847</u>	<u>163,323</u>	<u>610,527</u>
Less: allowance for uncollectibles	<u>(49,117)</u>	<u>(5,909)</u>	<u>(95,792)</u>		<u>(150,818)</u>
Net Receivable	<u>\$ 142,198</u>	<u>\$ 12,133</u>	<u>\$ 142,055</u>	<u>\$ 163,323</u>	<u>\$ 459,709</u>

**Note 6 - Interfund Balances and Transfers**

Interfund balances at September 30, 2016, were as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>			<u>Totals</u>
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	
General Fund	\$	\$ 6,193	\$	\$ 6,193
Capital Projects Fund	42,131			42,131
Water/Sewer Fund	426,987		60,774	487,761
	<u>\$ 469,118</u>	<u>\$ 6,193</u>	<u>\$ 60,774</u>	<u>\$ 536,085</u>

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

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

**Note 7 - Capital Assets**

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

	<b>Balance</b>		<b>(Transfers</b>	<b>Balance</b>
	<b>9/30/2015</b>	<b>Additions</b>	<b>Retirements)</b>	<b>9/30/2016</b>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 153,248	\$	\$	\$ 153,248
<b>Total capital assets, not being depreciated</b>	<u>153,248</u>	<u></u>	<u></u>	<u>153,248</u>
Other capital assets:				
Buildings and improvements	270,125			270,125
Machinery and equipment	263,062	103,055		366,117
Infrastructure	2,074,799			2,074,799
<b>Total other capital assets</b>	<u>2,607,986</u>	<u>103,055</u>	<u></u>	<u>2,711,041</u>
Less accumulated depreciation for:				
Buildings and improvements	(148,661)	(6,772)		(155,433)
Machinery and equipment	(210,947)	(15,204)		(226,151)
Infrastructure	(2,074,799)			(2,074,799)
<b>Total accumulated depreciation</b>	<u>(2,434,407)</u>	<u>(21,976)</u>	<u></u>	<u>(2,456,383)</u>
<b>Total other capital assets , net</b>	<u>173,579</u>	<u>81,079</u>	<u></u>	<u>254,658</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 326,827</u>	<u>\$ 81,079</u>	<u>\$</u>	<u>\$ 407,906</u>

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

<b>Governmental Activities</b>	
Administrative	\$ 8,902
Police Department	<u>13,074</u>
<b>Total depreciation expense - governmental activities</b>	<u>\$ 21,976</u>

Additions to the governmental activities capital assets for the 2016 fiscal year consisted of police vehicles.

**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, 2016, is as follows:

	<b>Balance 9/30/2015</b>	<b>Additions</b>	<b>Transfers (Retirements)</b>	<b>Balance 9/30/2016</b>
<b>Business-Type Activities</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 188,976	\$ 140,585	\$	\$ 329,561
<b>Total capital assets, not being depreciated</b>	<b>188,976</b>	<b>140,585</b>		<b>329,561</b>
Other capital assets:				
Machinery and equipment	21,165			21,165
Water and sewer system	11,952,008	60,718		12,012,726
<b>Total other capital assets</b>	<b>11,973,173</b>	<b>60,718</b>		<b>12,033,891</b>
Less accumulated depreciation for:				
Machinery and equipment	(19,878)	(1,287)		(21,165)
Water and sewer system	(2,564,618)	(353,561)		(2,918,179)
<b>Total accumulated depreciation</b>	<b>(2,584,496)</b>	<b>(354,848)</b>		<b>(2,939,344)</b>
<b>Total other capital assets, net</b>	<b>9,388,677</b>	<b>(294,130)</b>		<b>9,094,547</b>
<b>Total business-type activities</b>	<b>\$ 9,577,653</b>	<b>\$ (153,545)</b>	<b>\$</b>	<b>\$ 9,424,108</b>

Construction in progress at year-end is for engineering and planning for the waste water treatment plant project planned for FY 2017/18.

**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, 2016:

<b>Description</b>	<b>Original Issue</b>	<b>Maturity Date</b>	<b>Interest Rates</b>	<b>Debt Outstanding</b>
<b>Governmental Activities</b>				
<b>Certificates of Obligation</b>				
Series 2008A	\$ 1,380,000	3/1/2038	2.10-4.80%	\$ 1,165,000
Series 2008B	400,000	3/1/2028	0.0%	240,000
Series 2013	2,000,000	9/1/2053	2.00%	1,965,000
<b>Total Certificates of Obligation</b>				<b>3,370,000</b>
<b>Total Governmental Activities Long-Term Debt</b>				<b>\$ 3,370,000</b>

The two Series 2008 certificates of obligation are callable at par beginning June 2018. The Series 2013 certificates of obligation are callable at any date.

**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:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	100,000	82,238	182,238
2022-2026	525,000	372,514	897,514
2027-2031	540,000	296,618	836,618
2032-2036	595,000	201,187	796,187
2037-2041	440,000	101,860	541,860
2042-2046	310,000	64,800	374,800
2047-2051	340,000	32,300	372,300
2052-2053	150,000	3,000	153,000
	<u>\$ 3,370,000</u>	<u>\$ 1,505,381</u>	<u>\$ 4,875,381</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Bonds Payable	\$ 3,455,000	\$	(85,000)	\$ 3,370,000	90,000
<b>Governmental Activities</b>	<u>\$ 3,455,000</u>	<u>\$</u>	<u>\$ (85,000)</u>	<u>\$ 3,370,000</u>	<u>\$ 90,000</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"), as 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 - Employee Retirement System**

*Texas Municipal Retirement System*

Effective March 1, 2016, City council approved the participation in the Texas Municipal Retirement System to provide pension benefits for full time employees. Subsequently, the City began making necessary contributions in accordance with the provisions of the plan.

**Plan Description**

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

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

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

**Note 13 - Employee Retirement System (continued)**

**Benefits Provided**

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

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

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 100% of the employee's accumulated contributions.

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

Employee deposit rate	5%
Matching ratio (City to employee)	1 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	None
Annuity Increase to retirees	Ad Hoc

The City participates in Social Security.

Employees covered by benefit terms –

At the September 30, 2016, ten active City employees were covered by the benefit terms.

**Contributions**

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. For fiscal year 2016, the City made contributions of 5.24% of the employees’ annual gross income or \$13,877 for the seven months (March 1 – September 30, 2016) that the City participated in the plan.

**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, 2016*

	<b>Original Budget Amounts</b>	<b>Final Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance Positive (Negative)</b>
<b>Revenues</b>				
Taxes:				
Property	\$ 633,000	\$ 633,000	\$ 653,211	\$ 20,211
Sales	397,500	397,500	369,991	(27,509)
Franchise	45,000	45,000	48,813	3,813
Licenses and permits	11,500	11,500	35,170	23,670
Intergovernmental	1,000	1,000	971	(29)
Fines and forfeitures	187,250	187,250	307,568	120,318
Investment earnings	3,500	3,500	1,751	(1,749)
Other revenues	4,600	4,600	21,606	17,006
<b>Total Revenues</b>	<u>1,283,350</u>	<u>1,283,350</u>	<u>1,439,081</u>	<u>155,731</u>
<b>Expenditures</b>				
Current:				
General government	312,670	312,670	322,798	(10,128)
Municipal court	121,481	121,481	145,919	(24,438)
Public works	241,320	241,320	163,119	78,201
Public safety	467,879	467,879	440,157	27,722
Capital Outlay	90,000	90,000	103,055	(13,055)
<b>Total Expenditures</b>	<u>1,233,350</u>	<u>1,233,350</u>	<u>1,175,048</u>	<u>58,302</u>
<b>Revenues over (under) expenditures</b>	50,000	50,000	264,033	214,033
<b>Other Financing Sources (Uses)</b>				
Transfers out	(95,000)	(95,000)		95,000
<b>Total other financing sources (uses)</b>	<u>(95,000)</u>	<u>(95,000)</u>		<u>95,000</u>
Changes in fund balance	(45,000)	(45,000)	264,033	309,033
<b>Fund Balance - Beginning of Year</b>	<u>2,702,156</u>	<u>2,702,156</u>	<u>2,702,156</u>	
<b>Fund Balance - End of Year</b>	<u>\$ 2,657,156</u>	<u>\$ 2,657,156</u>	<u>\$ 2,966,189</u>	<u>\$ 309,033</u>

**CITY OF ARCOLA, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
*For the year ended September 30, 2016*

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 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.

**CITY OF ARCOLA, TEXAS**  
**PENSION PLAN CONTRIBUTIONS**

**TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)**  
**Last Fiscal Year**

Actuarial determined contribution	<u>2016</u> \$ 13,877
Contribution in relation to the actuarial determined contribution	<u>13,877</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll (fiscal year)	\$ 264,828
Contributions as a percentage of covered employee payroll	5.24%

The City began participating in TMRS on March 1, 2016, therefore no information is available prior to that date.