

CITY OF ELMENDORF, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

BEYER & CO.
CERTIFIED PUBLIC ACCOUNTANTS

442 WEST OAKLAWN
P.O. BOX 366 830/569-8781 FAX 830 569-6776
PLEASANTON, TEXAS 78064

111 NORTH ODEM
830/569-8781 FAX 830 569-6776
SINTON, TEXAS 78387

BEYER & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Wayne R. Beyer, C.P.A.

P.O. Box 366 / 442 West Oaklawn
Pleasanton, Texas 78064
Phone: (830) 569-8781 ~ Fax: (830) 569-6776
E-mail: beyerandco@sbcglobal.net

111 North Odem
Sinton, Texas 78387

Please reply to Pleasanton address

To the Mayor and City Council
City of Elmendorf, Texas

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elmendorf, Texas as of and for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Elmendorf, Texas' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Elmendorf, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Elmendorf, Texas' internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

Segregation of Duties - due to the limited number of people working in the office, many critical duties are combined and given to the available employees. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible.

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

Wayne R. Beyer

BEYER & COMPANY
Certified Public Accountants
April 10, 2018

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Honorable Mayor
and City Council
City of Elmendorf
Elmendorf, Texas 78112

As a result of our observations concerning the accounting and financial aspects of the records of the City of Elmendorf, Texas during our audit for the year ended September 30, 2017, we noted certain immaterial matters and these matters are summarized below for your consideration. The following management points will be reviewed as part of next year's audit:

Administrative

Finding:

1. We noted that some departments within the City, i.e. Permits, Copies, Brush, Notary, etc. use generic manual receipt books.

Recommendation:

We recommend that the City issue official, preprinted, prenumbered receipt books in consecutive numerical order to departments that use manual receipts.

These comments and recommendations are made in a constructive spirit and in the best interest of the City of Elmendorf, Texas. We will be glad to review and discuss them in more detail with the City personnel at your request.

Sincerely,

Wayne R. Beyer

BEYER & CO.
Certified Public Accountants
April 10, 2018

CITY OF ELMENDORF, TEXAS

ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
SEPTEMBER 30, 2017

CITY OF ELMENDORF, TEXAS
Annual Financial Report
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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FINANCIAL SECTION

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Wayne R. Beyer, C.P.A.

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Pleasanton, Texas 78064
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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Elmendorf, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elmendorf, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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, each major fund, and the aggregate remaining fund information of the City of Elmendorf, Texas, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund 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 the Employees Retirement System Information on pages 3-12, 61-62 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.



BEYER & COMPANY
Certified Public Accountants
April 10, 2018

Management's Discussion and Analysis

As management of the City of Elmendorf, Texas, we offer readers of the City of Elmendorf, Texas' financial statements this narrative overview and analysis of the financial activities of the City of Elmendorf, Texas for the fiscal year ended September 30, 2017.

Financial Highlights

- . The assets of the City of Elmendorf, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$2,126,623 (net position). Of this amount, \$1,078,441 or 51% (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- . The government's total net position increased by \$474,193. This increase is mainly attributable to an increase in charges for services of \$155,102, an increase in sales taxes of \$330,990, an increase in property taxes of \$107,042, and careful budget management.
- . At the end of the current fiscal year, unassigned fund balance for the general fund was \$240,682 or 19 percent of total general fund expenditures.
- . The City of Elmendorf, Texas' restricted net position at September 30, 2017 was \$246,176.
- . The City of Elmendorf, Texas' total debt decreased by \$111,166 (1%) during the current fiscal year. The key factor in this decrease was the payment of bonds and capital leases.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Elmendorf, Texas' basic financial statements. The City of Elmendorf, Texas' basic financial statements comprise 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 of Elmendorf, Texas' finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Elmendorf, Texas' assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Elmendorf, Texas 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 giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Elmendorf, Texas 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 of Elmendorf, Texas include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Elmendorf, Texas include a Water and Sewer System.

The government-wide financial statements include only the City of Elmendorf, Texas itself (known as the *primary government*.)

The government-wide financial statements can be found on pages 13-14 for 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 of Elmendorf, Texas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All other funds of the City of Elmendorf, Texas can be divided into two categories: governmental funds and proprietary funds.

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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Elmendorf, Texas maintains three 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 general fund, the Butterfield PID fund, and the Economic Development Corporation fund. The City of Elmendorf, Texas adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary funds: The City of Elmendorf, Texas maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Elmendorf, Texas uses enterprise funds to account for its Water and Sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer operations, which is considered to be a major fund of the City of Elmendorf, Texas. The basic proprietary fund financial statements can be found on pages 20-24 of this report.

Notes to the financial statements: The notes provided 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 25-60 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Elmendorf, Texas, assets exceeded liabilities by \$2,126,623 at the close of the most recent fiscal year.

A portion of the City of Elmendorf, Texas' net position (38 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Elmendorf, Texas uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Elmendorf, Texas' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF ELMENDORF, TEXAS
NET POSITION**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$712,071	\$494,713	\$498,124	\$492,771	\$1,210,195	\$987,484
Restricted Assets:	246,176	107,502			246,176	107,502
Capital Assets:	1,846,089	1,740,677	167,944	155,015	2,014,033	1,895,692
Total Assets	2,804,336	2,342,892	666,068	647,786	3,470,404	2,990,678
Total Deferred Outflows of Resources	12,408	16,033	15,470	15,286	27,878	31,319
Long-Term Liabilities	1,216,871	1,227,516	23,249	26,494	1,240,120	1,254,010
Other Liabilities (Payable from Restricted Assets)	0	0	1,300	1,300	1,300	1,300
Other Liabilities	79,239	71,728	50,993	42,529	130,232	114,257
Total Liabilities	1,296,110	1,299,244	75,542	70,323	1,371,652	1,369,567
Total Deferred Inflows of Resources	3	0	4	0	7	0
Invested in Capital Assets, Net of Related Debt	649,089	527,677	152,917	130,972	802,006	658,649
Restricted	246,176	107,502	0	0	246,176	107,502
Unrestricted	625,366	424,502	453,075	461,777	1,078,441	886,279
Total Net Position	\$1,520,631	\$1,059,681	\$605,992	\$592,749	\$2,126,623	\$1,652,430

An additional portion of the City of Elmendorf, Texas' net position (12 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$1,078,441) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Elmendorf, Texas is able to report positive balances in three categories of net position, for the government as a whole, as well as for the separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's total net position increased by \$474,193. This increase is mainly attributable to an increase in charges for services of \$155,102, an increase in sales taxes of \$330,990, an increase in property taxes of \$107,042, and careful budget management.

Governmental activities: Governmental activities increased the City of Elmendorf, Texas' net position by \$460,950 which accounted for 97 percent of the total growth in the net position of the City of Elmendorf, Texas. Key elements of this increase are as follows: This increase is mainly attributable to an increase in maintenance and operations taxes of \$107,142, an increase in sales taxes of \$330,990, and careful budget management.

**CITY OF ELMENDORF, TEXAS
CHANGE IN NET POSITION**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for Services	\$394,047	\$367,519	\$1,289,638	\$1,161,064	\$1,683,685	\$1,528,583
Operating Grants and Contributions	0	0	0	0	0	0
General Revenues:						
Maintenance and Operations Taxes	379,940	272,798			379,940	272,798
Sales Taxes	705,306	374,316			705,306	374,316
Franchise Taxes	70,133	70,095			70,133	70,095
Licenses and Permits	10,245	22,213			10,245	22,213
Unrestricted Investment Earnings	1,025	135	740	161	1,765	296
Miscellaneous	57,317	58,549			57,317	58,549
Total Revenue	1,618,013	1,165,625	1,290,378	1,161,225	2,908,391	2,326,850
Expenses:						
General Administration	651,862	445,781			651,862	445,781
Public Safety	363,008	287,826			363,008	287,826
Public Facilities	67,308	46,001			67,308	46,001
Public Transportation	95,558	131,295			95,558	131,295
Culture and Recreation	11,388	4,363			11,388	4,363
Interest and Fiscal Charges	40,416	41,950			40,416	41,950
Utility			1,204,658	941,321	1,204,658	941,321
Total Expenses	1,229,540	957,216	1,204,658	941,321	2,434,198	1,898,537
Increase in Net Position Before Transfers and Special Items	388,473	208,409	85,720	219,904	474,193	428,313
Transfers	72,477	66,209	(72,477)	(66,209)	0	0
Increase in Net Position	460,950	274,618	13,243	153,695	474,193	428,313
Net Position at 09/30/2016	1,059,681	785,063	592,749	439,054	1,652,430	1,224,117
Net Position at 09/30/2017	\$1,520,631	\$1,059,681	\$605,992	\$592,749	\$2,126,623	\$1,652,430

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Government Activities:			
General Administration	\$651,862	\$6,914	\$0
Public Safety	363,008	387,133	
Public Facilities	67,308		
Public Transportation	95,558		
Culture and Recreation	11,388		
Interest and Fiscal Charges	40,416		
Total Government Activities	<u>\$1,229,540</u>	<u>\$394,047</u>	<u>\$0</u>

Revenues by Source - Governmental Activities

	<u>REVENUES</u>	<u>%</u>
Charges for Services	\$394,047	24%
Maintenance and Operations Taxes	379,940	23%
Sales Taxes	705,306	44%
Franchise Taxes	70,133	4%
Licenses and Permits	10,245	1%
Unrestricted Investment Earnings	1,025	0%
Miscellaneous	57,317	4%
	<u>\$1,618,013</u>	<u>100%</u>

For the most part, increases and decreases in expenses closely paralleled inflation and growth/decline in the demand for services.

Business-type activities: Business-type activities increased the City of Elmendorf, Texas' net position by \$13,243, accounting for 3 percent of the total growth in the government's net position. Key elements of this increase are as follows: This increase is mainly attributable to an increase in charges for services of \$128,574 and careful budget management.

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary government			
Business-Type Activities:			
Utility	\$1,204,658	\$1,289,638	\$0
Total Business-Type Activities	\$1,204,658	\$1,289,638	\$0

Revenues by Source - Business-Type Activities

	REVENUES	%
Charges for Services	\$1,289,638	100%
Unrestricted Investment Earnings	740	0%
	\$1,290,378	100%

Financial Analysis of the Government's Funds

As noted earlier, the City of Elmendorf, Texas uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the City of Elmendorf, Texas' governmental funds reported combined ending fund balances of \$486,858, an increase of \$264,605 in comparison with the prior year. Approximately 49% of this total amount \$240,682 constitutes *uncommitted, undesignated fund balance*, which is available for spending at the government's discretion. There is no fund balance that is *reserved or designated*.

The general fund is the chief operating fund of the City of Elmendorf, Texas. At the end of the current fiscal year, unassigned fund balance of the general fund was \$240,682 while total fund balance reached \$350,749. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 19 percent of total general fund expenditures, while total fund balance represents 28 percent of that same amount.

The fund balance of the City of Elmendorf, Texas' general fund increased by \$86,244 during the current fiscal year. Key factor in this increase is as follows: This increase is mainly attributable to an increase in sales taxes of \$330,990, an increase in property taxes of \$107,383, and careful budget management.

There is no analysis for the Butterfield PID fund because it is used to pay back to the developer for infrastructure expenses from tax assessments on the property.

At the end of the current fiscal year, restricted fund balance of the economic development fund was \$136,009 while total fund balance reached \$136,009. As a measure of the economic development fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 172 percent of total economic development fund expenditures. There is no other analysis for the economic development fund because it is the fund's first year and any analysis would be impracticable.

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

Unrestricted net position of the Utility fund at the end of the year amounted to \$453,075. The total increase in net position for the Utility fund was \$13,243. Key factors in this overall increase are as follows:

1. This increase is mainly attributable to an increase in charges for services of \$128,574 and careful budget management.

General Fund Budgetary Highlights

During the year there was an increase of \$64,977 in appropriations between the original and final amended budget for the general fund. The main increases were in the municipal court department and public transportation which increased by \$29,500 and \$18,277, respectively. Overall, the total actual expenditures of \$1,051,444 were under the budgeted amount of \$1,110,262 by \$58,818.

Capital Asset and Debt Administration

Capital assets: The City of Elmendorf, Texas' investment in capital assets for its governmental and business-type activities as of September 30, 2017, amounts to \$2,014,033 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Elmendorf, Texas' investment in capital assets for the current fiscal year was 6 percent (a 6 percent increase for governmental activities and an 8 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following: The government had no major capital events during the 2016-2017 year.

CITY OF ELMENDORF, TEXAS CAPITAL ASSETS (Net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$54,388	\$54,388	\$30	\$30	\$54,418	\$54,418
Construction in Progress	0	0	0	0	0	0
Building and Improvements	1,476,630	1,501,727	32,503	37,779	1,509,133	1,539,506
Machinery and Equipment	134,912	120,832	135,411	117,206	270,323	238,038
Intangible	0	0			0	0
Infrastructure	180,159	63,730			180,159	63,730
Distribution System					0	0
Total	<u>\$1,846,089</u>	<u>\$1,740,677</u>	<u>\$167,944</u>	<u>\$155,015</u>	<u>\$2,014,033</u>	<u>\$1,895,692</u>

Additional information of the City of Elmendorf, Texas' capital assets can be found in note IV.C on pages 38-39 of this report.

Long-term debt:

At the end of the current fiscal year, the City of Elmendorf, Texas had the following bonded debt.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
<u>Governmental Activities:</u>						
Bonds Payable	\$1,213,000	\$0	\$16,000	\$1,197,000	\$17,000	\$1,180,000
Grand Total	<u>\$1,213,000</u>	<u>\$0</u>	<u>\$16,000</u>	<u>\$1,197,000</u>	<u>\$17,000</u>	<u>\$1,180,000</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 25 percent of its total assessed valuation. The current debt limitation for the City of Elmendorf, Texas is \$25,030,458, which is significantly in excess of the City of Elmendorf, Texas' outstanding general obligation debt.

Additional information on the City of Elmendorf, Texas' long-term debt can be found in note IV.F on page 40-42 of this report.

Economic Factors:

The City saw a 28% increase in its water usage costs in January 2016 from the City of San Antonio (SAWS). The City has a two year contract and had another 10% increase in January 2017. As a result, the City is seeking to build water facilities including an elevated storage tank and wells.

The City has also experienced a huge increase in sales tax proceeds from the Halliburton Plant and the creation of the Elmendorf Economic Development Corporation.

Requests for Information

This financial report is designed to provide a general overview of the City of Elmendorf, Texas' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Department, P.O. Box 247, Elmendorf, Texas 78112.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ELMENDORF, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$285,457	\$376,393	\$661,850
Receivables (Net of Allowance for Uncollectibles)	426,614	121,731	548,345
Restricted Assets:			
Cash and Cash Equivalents	246,176		246,176
Capital Assets Not Being Depreciated:			
Land	54,388	30	54,418
Total Capital Assets Being Depreciated, Net			
Building and Improvements	1,476,630	32,503	1,509,133
Machinery and Equipment	134,912	135,411	270,323
Intangible	0		0
Infrastructure	180,159		180,159
Total Assets	\$2,804,336	\$666,068	\$3,470,404
DEFERRED OUTFLOWS OF RESOURCES			
GASB 68			
Deferred Outflow of Resources-Contributions (after 12/31/16)	11,761	14,663	26,424
Difference in expected and actual experience	647	807	1,454
Total Deferred Outflows of Resources	12,408	15,470	27,878
LIABILITIES:			
Accounts Payable	\$61,740	\$44,729	\$106,469
Accrued Wages	10,766	6,264	17,030
Accrued Interest	6,733		6,733
Consumer Meter Deposit		1,300	1,300
Noncurrent Liabilities:			
Due Within One Year	34,310	13,951	48,261
Due in More Than One Year	1,182,561	9,298	1,191,859
Total Liabilities	1,296,110	75,542	1,371,652
DEFERRED INFLOWS OF RESOURCES			
GASB 68			
Difference in proj. and actual earnings on pension plan invest.	3	4	7
Total Deferred Inflows of Resources	3	4	7
NET POSITION			
Invested in Capital Assets, Net of Related Debt	649,089	152,917	802,006
Restricted			
Butterfield Ranch PID No. 1	100		100
Construction	100		100
Debt Service	101,772		101,772
Economic Development	136,009		136,009
PEG Fund	8,195		8,195
Unrestricted	625,366	453,075	1,078,441
Total Net Position	\$1,520,631	\$605,992	\$2,126,623

The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Revenue and Changes in
						Total
Primary Government						
Government Activities:						
General Administration	\$651,862	\$6,914	\$0	(\$644,948)		(\$644,948)
Public Safety	363,008	387,133		24,125		24,125
Public Facilities	67,308			(67,308)		(67,308)
Public Transportation	95,558			(95,558)		(95,558)
Culture and Recreation	11,388			(11,388)		(11,388)
Interest and Fiscal Charges	40,416			(40,416)		(40,416)
Total Government Activities	1,229,540	394,047	0	(835,493)	0	(835,493)
Business-Type Activities:						
Utility (Water, Garbage, and Sewer)	1,204,658	1,289,638			84,980	84,980
Total Business-Type Activities	1,204,658	1,289,638	0	0	84,980	84,980
Total Primary Government	\$2,434,198	\$1,683,685	\$0	(835,493)	84,980	(750,513)
General Revenues						
Property Taxes, Levies for General Purposes				379,940		379,940
Sales Taxes				705,306		705,306
Franchise Taxes				70,133		70,133
Licenses and Permits				10,245		10,245
Unrestricted Investment Earnings				1,025	740	1,765
Miscellaneous				57,317		57,317
Transfers				72,477	(72,477)	0
Total General Revenues and Transfers				1,296,443	(71,737)	1,224,706
Change in Net Position				460,950	13,243	474,193
Net Position - Beginning				1,059,681	592,749	1,652,430
Net Position - Ending				\$1,520,631	\$605,992	\$2,126,623

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF ELMENDORF, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	Butterfield PID Fund	Economic Development Corporation	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$285,457	\$0	\$0	\$285,457
Receivables (Net of Allowance for Uncollectibles)	68,191			68,191
Restricted Assets:				
Cash and Cash Equivalents	110,067	100	136,009	246,176
Total Assets	\$463,715	\$100	\$136,009	\$599,824
LIABILITIES AND FUND BALANCES:				
Accounts Payable	\$61,740			\$61,740
Accrued Wages	10,766			10,766
Total Liabilities	72,506	0	0	72,506
DEFERRED INFLOWS OF RESOURCES				
Deferred Property Taxes	40,460			40,460
Fund Balances:				
Restricted				
Butterfield Ranch PID No. 1		100		100
Construction	100			100
Debt Service	101,772			101,772
Economic Development			136,009	136,009
PEG Fund	8,195			8,195
Unassigned	240,682			240,682
Total Fund Balance	350,749	100	136,009	486,858
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$423,255	\$100	\$136,009	\$559,364

The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 SEPTEMBER 30, 2017

Total Fund Balances - Governmental Funds Balance Sheet	\$486,858
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Amounts reported for governmental activities in the statement of net position
 ("SNA") are different because:

Capital assets used in governmental activities are not reported in the funds.	1,846,089
Net Pension Receivable	0
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	40,460
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	370,828
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,223,604)

Net Position of Governmental Activities - Statement of Net Position	<u>\$1,520,631</u>
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The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Butterfield PID Fund	Economic Development Corporation	Total Governmental Funds
REVENUES				
Taxes				
Property	\$377,962			\$377,962
Sales	490,346		214,960	705,306
Franchise	70,133			70,133
Licenses and Permits	10,245			10,245
Charges for Services	205,837			205,837
Fines and Forfeitures	47,725	16,127		63,852
Interest	1,019		6	1,025
Miscellaneous	57,317			57,317
Total Revenues	<u>1,260,584</u>	<u>16,127</u>	<u>214,966</u>	<u>1,491,677</u>
EXPENDITURES				
Current:				
General Administration	563,855	15,529	78,957	658,341
Public Safety	399,531			399,531
Public Facilities	37,005			37,005
Public Transportation	186,021			186,021
Culture and Recreation	4,334			4,334
Debt Service				
Principal Retirement	16,000			16,000
Interest Retirement	40,669			40,669
Total Expenditures	<u>1,247,415</u>	<u>15,529</u>	<u>78,957</u>	<u>1,341,901</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>13,169</u>	<u>598</u>	<u>136,009</u>	<u>149,776</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	73,075			73,075
Operating Transfers Out		(598)		(598)
Total Other Financing Sources (Uses)	<u>73,075</u>	<u>(598)</u>	<u>0</u>	<u>72,477</u>
Net Changes in Fund Balances	<u>86,244</u>	<u>0</u>	<u>136,009</u>	<u>222,253</u>
Fund Balances - Beginning	264,505	100	0	264,605
Fund Balances - Ending	<u>\$350,749</u>	<u>\$100</u>	<u>\$136,009</u>	<u>\$486,858</u>

The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 SEPTEMBER 30, 2017

Net Changes in Fund Balances - Total Governmental Funds \$222,253

Amounts reported for governmental activities in the statement of net position
 ("SNA") are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	105,412
GASB 68	
Deferred Outflow of Resources-Contribution. This is the change in these amounts this year.	75
Deferred Outflow-Difference in expected and actual experience. This is the change in these amounts this year.	(2,666)
Deferred Inflow-Difference in expected and actual experience. This is the change in these amounts this year.	(1,034)
Deferred Inflow-Dif. in proj. and actual earnings on pension plan investments. This is the change in these amounts this year.	(3)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.	124,358
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	1,978
(Decrease) increase in net pension receivable.	(321)
(Increase) decrease in compensated absences from beginning of period to end of period.	(2,794)
(Increase) decrease in net pension payable.	(2,561)
(Increase) decrease in accrued interest payable from beginning of period to end of period.	253
Increase in loan principal are receipts in the funds but not revenue in the SOA.	0
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	16,000
Change in Net Position of Governmental Activities - Statement of Activities	<u><u>\$460,950</u></u>

The accompanying notes are an integral part of this statement.

CITY OF ELMENDORF, TEXAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - (BUDGETARY BASIS) - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$345,500	\$345,500	\$377,962	\$32,462
Sales	467,000	467,000	490,346	23,346
Franchise	61,780	61,780	70,133	8,353
Licenses and Permits	12,000	12,000	10,245	(1,755)
Charges for Services	148,080	148,080	205,837	57,757
Fines and Forfeitures	95,000	64,000	47,725	(16,275)
Interest	120	120	1,019	899
Miscellaneous	45,655	57,132	57,317	185
Total Revenues	1,175,135	1,155,612	1,260,584	104,972
EXPENDITURES				
Current:				
General Administration				
General Administration	201,791	201,791	162,785	39,006
Insurance	13,040	13,040	14,520	(1,480)
Operations	10,920	10,920	11,926	(1,006)
Miscellaneous	40,690	48,290	47,458	832
Non Departmental	277,480	284,080	327,166	(43,086)
Public Safety				
Police	326,944	322,644	321,600	1,044
Jail	1,000	5,000	3,881	1,119
Municipal Court	30,120	59,620	24,719	34,901
Public Facilities				
Building	14,600	14,600	11,475	3,125
Public Transportation				
Streets	31,400	31,400	14,924	16,476
Public Transportation	38,500	56,777	49,987	6,790
Culture and Recreation				
Library	6,300	6,300	4,334	1,966
Debt Service				
Principal Retirement	16,000	16,000	16,000	0
Interest and Fiscal Charges	36,500	39,800	40,669	(869)
Total Expenditures	1,045,285	1,110,262	1,051,444	58,818
Excess (Deficiency) of Revenues Over (Under) Expenditures	129,850	45,350	209,140	163,790
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	0	0	73,075	73,075
Total Other Financing Sources (Uses)	0	0	73,075	73,075
Net Changes in Fund Balances - Budgetary Basis	129,850	45,350	282,215	236,865

Reconciliation from Budgetary Basis to Modified Accrual:

Capital Asset Acquisitions	(195,971)
Net Changes in Fund Balances - Modified Accrual Basis	86,244
Fund Balances - Beginning	264,505
Fund Balances - Ending	\$350,749

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

CITY OF ELMENDORF, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$376,393	\$378,166	\$376,393
Accounts Receivables (Net of Allowance for Uncollectibles)	121,731	114,299	121,731
Net Pension Receivable	0	306	0
Total Current Assets	498,124	492,771	498,124
Capital Assets			
Land	30	30	30
Buildings and Improvements	87,062	61,562	87,062
Machinery and Equipment	320,196	300,250	320,196
Total Capital Assets	407,288	361,842	407,288
Less Accumulated Depreciation	(239,344)	(206,827)	(239,344)
Total Capital Assets (Net of Accumulated Depreciation)	167,944	155,015	167,944
Total Noncurrent Assets	167,944	155,015	167,944
DEFERRED OUTFLOWS OF RESOURCES			
GASB 68			
Deferred Outflow of Resources-Contributions (after 12/31/15)		11,143	0
Deferred Outflow of Resources-Contributions (after 12/31/16)	14,663		14,663
Difference in expected and actual experience	807	3,158	807
Change in assumptions		985	0
Total Deferred Outflow of Resources	15,470	15,286	15,470
TOTAL ASSETS	\$666,068	\$647,786	\$666,068

(continued)

(continued)

	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities			
Current Liabilities (Payable from Current Assets)			
Accounts Payable	\$44,729	\$36,957	\$44,729
Accrued Wages	6,264	5,572	6,264
Compensated Absences	4,935	2,451	4,935
Capital Lease Payable - Current	9,016	9,016	9,016
Total Current Liabilities (Payable from Current Assets)	64,944	53,996	64,944
Current Liabilities (Payable from Restricted Assets)			
Consumer Meter Deposits	1,300	1,300	1,300
Total Current Liabilities Payable from Restricted Assets	1,300	1,300	1,300
Noncurrent Liabilities			
Capital Lease Payable	6,011	15,027	6,011
Net Pension Liability	3,287		3,287
Total Noncurrent Liabilities	9,298	15,027	9,298
Total Liabilities	75,542	70,323	75,542
DEFERRED INFLOWS OF RESOURCES			
GASB 68			
Difference in projected and actual earnings on pension plan investments	4	0	4
Total Deferred Inflow of Resources	4	0	4
Invested in Capital Assets, Net of Related Debt	152,917	130,972	152,917
Unrestricted	453,075	461,777	453,075
Total Net Position	\$605,992	\$592,749	\$605,992

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

CITY OF ELMENDORF, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
OPERATING REVENUES:			
Charges for Services (Water)	\$996,825	\$891,737	\$996,825
Charges for Services (Sewer)	23,607	17,220	23,607
Charges for Services (Garbage)	196,921	181,868	196,921
Miscellaneous	72,285	70,239	72,285
Total Operating Revenues	1,289,638	1,161,064	1,289,638
OPERATING EXPENSES:			
Personal Services	275,485	252,869	275,485
Supplies	7,864	11,645	7,864
Other Services and Charges	888,792	648,789	888,792
Depreciation	32,517	28,018	32,517
Total Operating Expenses	1,204,658	941,321	1,204,658
Operating Income (Loss)	84,980	219,743	84,980
NON-OPERATING REVENUES (EXPENSES):			
Interest and Fiscal Charges	0	0	0
Interest Income	740	161	740
Total Non-Operating Revenues (Expenses)	740	161	740
Income Before Transfers	85,720	219,904	85,720
Transfers In (Out) - Net	(72,477)	(66,209)	(72,477)
Change in Net Position	13,243	153,695	13,243
Total Net Position - Beginning	592,749	439,054	592,749
Total Net Position - Ending	\$605,992	\$592,749	\$605,992

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

CITY OF ELMENDORF, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
Cash Flows from Operating Activities			
Receipts from Customers and Users	\$1,282,206	\$1,142,094	\$1,282,206
Payments to Suppliers	(885,597)	(668,300)	(885,597)
Payments to Employees	(272,183)	(250,507)	(272,183)
Net Cash Provided (Used) by Operating Activities	124,426	223,287	124,426
Cash Flows from Non-Capital and Related Financing Activities			
Transfers In (Out)	(72,477)	(66,209)	(72,477)
Federal Grants and Contributions	0	161	0
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	(72,477)	(66,048)	(72,477)
Cash Flows from Capital and Related Financing Activities			
Interest and Fiscal Charges	0	0	0
Purchases of Capital Assets	(45,446)	(9,200)	(45,446)
Principal Payment on Revenue Bonds, Notes and Capital Leases	(9,016)	(9,016)	(9,016)
Net Cash Provided (Used) by Capital and Related Financing Activities	(54,462)	(18,216)	(54,462)
Cash Flows from Investing Activities			
Interest Received	740	0	740
Net Cash Provided (Used) by Investment Activities	740	0	740
Net Increase (Decrease) in Cash Equivalents	(1,773)	139,023	(1,773)
Cash and Cash Equivalents at Beginning of Year	378,166	239,143	378,166
Cash and Cash Equivalents at End of Year	\$376,393	\$378,166	\$376,393

(continued)

(continued)

	Business-Type Activities Enterprise Funds		
	Utility Current Year	Utility Prior Year	Totals Current Year
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$84,980	\$219,743	\$84,980
Adjustments to Reconcile to Net Cash Flow			
Non-Cash Items Included in Net Income			
Depreciation	32,517	28,018	32,517
Changes in Current Items			
(Increase) Decrease in Accounts Receivable	(7,432)	(18,970)	(7,432)
(Increase) Decrease in Net Pension Receivable	306	4,906	306
GASB 68			
Decrease (Increase) Deferred Outflow of Resources-Contributions	(3,520)	(1,777)	(3,520)
Difference in expected and actual experience	2,351	(2,639)	2,351
Change in assumptions	985	(1,313)	985
Difference in projected and actual earnings on pension plan investments	4		4
Increase (Decrease) in Accounts Payable	7,772	(7,866)	7,772
Increase (Decrease) in Accrued Wages	692	3,130	692
Increase (Decrease) in Compensated Absences	2,484	55	2,484
Increase (Decrease) in Net pension Liability	3,287	0	3,287
Increase (Decrease) in Consumer Meter Deposits	0	0	0
Net Cash Provided (Used) by Operating Activities	<u>\$124,426</u>	<u>\$223,287</u>	<u>\$124,426</u>

Noncash Investing, Capital, and Financing Activities:
None

Note: The above funds are all Enterprise Funds.

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

CITY OF ELMENDORF, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

I. Summary of significant accounting policies

A. Reporting entity/ Basis of Accounting/Measurement Focus

The City of Elmendorf, Texas, was incorporated by an election. The City operates under a General Law type of government and provides the following services: public safety (fire, ambulance, and law enforcement), public transportation (streets), health, culture, recreation, public facilities, legal, election functions, and general administrative services. The accounting policies of the City of Elmendorf, Texas, (the City) conform to generally accepted accounting principles. The City also applies all relevant Government Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies.

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, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

B. Government-wide and fund financial statements

The City's Government-Wide Financial Statements include a statement of net position and a statement of activities. These statements present summaries of governmental and business-type activities for the City accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

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

C. Governmental Fund Financial Statements

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. (The City’s deferred outflows of resources and deferred inflows of resources are noncurrent.) The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes and franchise taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The government reports the following major governmental funds:

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

The Butterfield PID fund is a Public Improvement District in Butterfield and is used to pay back to the developer for infrastructure expenses from tax assessments on the property; collected by Bexar County tax assessor.

The economic development fund is used to collect sales taxes to be used for economic development of the City of Elmendorf.

D. Proprietary fund financial statements

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses and changes in fund net position, and a statement of cash flows for each major proprietary fund and for the non-major funds aggregated.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in fund net position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

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. The principal operating revenues of the Utility Fund (water and sewer) are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

The government reports the following major proprietary funds:

The *utility fund* accounts for the activities of the water, sewer, and garbage services.

E. Assets, liabilities, and net position or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as fair value of the pool shares. For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The current trade accounts receivable allowance is equal to 1 percent, the trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding trade accounts receivable at September 30, 2017, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding trade accounts receivable at September 30, 2017, and the trade accounts receivable allowance in excess of 90 days and later is equal to 75 percent of outstanding trade accounts receivable at September 30, 2017. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2017, and 10 percent of delinquent outstanding property taxes at September 30, 2017.

Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

3. Inventories and prepaid items

Inventories are considered immaterial and, therefore, there were no inventory items at September 30, 2017.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. There were no prepaid items at September 30, 2017.

4. Restricted assets

Certain assets are classified as restricted assets because their use is restricted by applicable contract covenants.

Butterfield Ranch PID No. 1	\$100
Construction	100
Debt Service	101,772
Economic Development	136,009
PEG Fund	<u>8,195</u>
Total Fund Balance	<u>\$246,176</u>

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The government had no major capital events during the 2016-2017 year.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<i>Assets</i>	<i>Years</i>
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

6. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds.

7. Long-term obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Balances – Governmental Funds

As of September 30, 2017, fund balances of the governmental funds are classified as follows:

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Unassigned — all other spendable amounts.

As of September 30, 2017, fund balances are composed of the following:

Fund Balances:

Restricted

Butterfield Ranch PID No. 1	\$100
Construction	100
Debt Service	101,772
Economic Development	136,009
PEG Fund	8,195
Unassigned	<u>240,682</u>
Total Fund Balance	<u>\$486,858</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council or the finance committee has provided otherwise in its commitment or assignment actions. In fiscal year 2011, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year end to be at least equal to 25 to 33 percent of the subsequent year's budgeted General Fund expenditures.

9. Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

10. 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 government only has one item that qualifies for reporting in this category. They are amounts deferred under GASB 68.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government only has one item that qualifies for reporting in this category. They are amounts deferred under GASB 68.

The City reports unearned revenue on its fund financial statements. Unearned revenues arise when potential revenue does not meet both the “measureable” and “available” criteria for recognition in the current period (fund financial statements). Unearned revenues also arise when resources are unearned by the City and received before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures (fund financial statements and government-wide financial statements). In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statement and revenue is recognized. Pursuant to GASB 65 we have included deferred ad valorem taxes as deferred inflows in the fund financial statements.

11. Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$1,223,604 difference are as follows:

Bonds Payable	\$1,197,000
Accrued Interest	6,733
Net Pension Liability	2,561
Compensated Absences	17,310
	<u>\$1,223,604</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.)" The details of this \$40,460 difference are as follows:

Property Taxes Receivable	\$43,568
Allowance for Doubtful Accounts	(3,108)
Net	<u>\$40,460</u>

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$1,846,089 difference are as follows:

Capital Assets Not Being Depreciated	\$54,388
Capital Assets Being Depreciated	2,257,769
Depreciation Expense	(466,068)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities	<u>\$1,846,089</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "municipal fines and fees receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.") The details of this \$370,828 difference are as follows:

Fines and Fees Receivable	\$680,647
Allowance for Doubtful Accounts	(322,224)
GASB 68	
Deferred Outflow of Resources-Contributions (after 12/31/16)	11,761
Difference in expected and actual experience	647
Difference in projected and actual earnings on pension plan investments	<u>(3)</u>
Net	<u><u>\$370,828</u></u>

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$105,412 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	\$0
Capital Outlay - Additions - Being Depreciated	202,095
Capital Outlay - Deletions	0
Depreciation Expense	<u>(96,683)</u>
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities	<u><u>\$105,412</u></u>

III. Stewardship, compliance, and accountability

A. Budgetary information

The Mayor has been authorized by the council to prepare the budget. He is assisted by the City Administrator. The budget is adopted on budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council. The budget is adjusted by the City Council if desired. Then a final budget is prepared by the City Administrator. A public hearing is held on the budget by the City Council. Department heads may appear. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. Amounts finally budgeted may not exceed the estimate of revenues and available cash. Appropriations lapse at year end.

When the budget is adopted by the City Council, the City Administrator responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the fund. Expenditures can exceed appropriations as long as they do not exceed available revenues and cash balances. The legal level of control (the level on which the City Council must approve over expenditures) is on an object class basis.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (IE. the level at which expenditures may not legally exceed appropriations) is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. There were no outstanding encumbrances at September 30, 2017.

B. Excess of expenditures over appropriations

Overall, the total actual expenditures of \$1,051,444 were under the budgeted amount of \$1,110,262 by \$58,818. The major overages were in non-departmental which was over budget by \$43,086 mainly because of Halliburton expense and Alamo Junction expense.

C. Deficit fund equity

The City had no deficit fund balances as of September 30, 2017.

IV. Detailed notes on all funds

A. Deposits and investments

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in compliance with the requirements of the Act.

Policies Governing Deposits and Investments

The City has adopted a deposit and investment policy. That City does address the following risks:

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City is not exposed to custodial credit risk because during the year the City was fully covered by either depository insurance and/or was fully collateralized by pledged securities in the City's depository in the City's name. The total amount of cash in the bank at September 30, 2017 is \$721,356 while the total pledged securities are \$959,597 and the FDIC insurance coverage is \$250,000. Thus, the City was fully covered by depository insurance and pledged securities at September 30, 2017. The book amount of cash is \$531,633.

Interest rate risk: In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than twelve months.

Credit risk: State law limits investments in commercial paper and corporate bonds to the top two rating issued by nationally recognized statistical rating organizations (NRSROs). It is the government's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2017, the local investment pool Texpool (100% of portfolio) were rated AAAM by Standard and Poor's.

Concentration of credit risk: The City places no limit on the amount the City may invest in any one issuer. 100 percent of the City's investments are in an insured Texpool account.

Custodial credit risk – investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2017, the City had \$238,241 in investments in an insured TexPool account.

As of September 30, 2017, the government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>	<u>Weighted Average</u>
TexPool Funds	\$ 238,241	Less than 1 year	Less than 1 year

The City participates in one Local Government Investment Pool: TexPool. The City invests in TexPool to provide its liquidity needs. It is a local government investment pool established in conformity with the Inter-local Cooperation Act Chapter 791 of the Texas Government Code and the Public Investment Act Chapter 2256 of the Code. TexPool is 2(a) 7 like fund meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are adjusted daily and the fund seeks to maintain a constant net asset value of \$1.00, although this cannot be guaranteed. The City considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder short of a significant change in value. The TexPool fund is within the Governmental Activities.

B. Receivables

Amounts are aggregated into a single account receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general and utility funds in the aggregate, including the applicable allowances for uncollectible accounts:

	<u>General</u>	<u>Utility</u>	<u>Total</u>
<u>Receivables</u>			
Taxes	\$43,568		\$43,568
Accounts	23,519	171,582	195,101
Fines	680,647		680,647
Other	4,212		4,212
Gross Receivables	751,946	171,582	923,528
Less: Allowance for Uncollectibles	325,332	49,851	375,183
Net Total Receivables	<u>\$426,614</u>	<u>\$121,731</u>	<u>\$548,345</u>

C. Capital assets

Capital asset activity for the year ended September 30, 2017 was as follows:

Primary Government

Governmental Activities:	Beginning			Ending
Capital Assets not being depreciated:	Balances	Increases	Decreases	Balances
Land	\$54,388	\$0	\$0	\$54,388
Construction in Progress	0	0	0	0
Total Capital Assets not being depreciated:	54,388	0	0	54,388

Capital Assets being depreciated:				
Building and Improvements	1,607,656	7,200	0	1,614,856
Machinery, Equipment and Vehicles	296,801	73,785		370,586
Intangible	25,338	0	0	25,338
Infrastructure	125,879	121,110	0	246,989
Total Capital Assets being depreciated:	2,055,674	202,095	0	2,257,769

Less: Accumulated Depreciation for:				
Building and Improvements	105,929	32,297	0	138,226
Machinery, Equipment and Vehicles	175,969	59,705		235,674
Intangible	25,338	0	0	25,338
Infrastructure	62,149	4,681	0	66,830
Total Accumulated Depreciation	369,385	96,683	0	466,068
Total Capital Assets Depreciated, Net	1,686,289	105,412	0	1,791,701
Governmental Activities capital assets, Net	\$1,740,677	\$105,412	\$0	\$1,846,089

Proprietary Fund:	Beginning			Ending
Capital Assets not being depreciated:	Balances	Increases	Decreases	Balances
Land	\$30	\$0	\$0	\$30
Construction in Progress	0	0	0	0
Total Capital Assets not being depreciated:	30	0	0	30

Capital Assets being depreciated:				
Building and Improvements	61,562	25,500	0	87,062
Machinery, Equipment and Vehicles	300,250	19,946		320,196
Total Capital Assets being depreciated:	361,812	45,446	0	407,258

Less: Accumulated Depreciation for:				
Building and Improvements	23,783	30,776	0	54,559
Machinery, Equipment and Vehicles	183,044	1,741		184,785
Total Accumulated Depreciation	206,827	32,517	0	239,344
Total Capital Assets Depreciated, Net	154,985	12,929	0	167,914
Proprietary Fund, Net	\$155,015	\$12,929	\$0	\$167,944

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

Governmental Activities	
Public Safety	\$24,204
Public Facilities	30,303
Public Transportation	35,122
Culture and Recreation	<u>7,054</u>
Total Depreciation Expense - Governmental Activities	<u>\$96,683</u>
Business-Type Activities	
Utility	<u>\$32,517</u>
Total Depreciation Expense - Business-Type Activities	<u>\$32,517</u>

Construction commitments

The government had no major capital events during the 2016-2017 year.

D. Interfund receivables, payables, and transfers

There are no due to or from at September 30, 2017.

The intrafund and interfund fund transfers for the year ended September 30, 2017 are as follows:

<u>PRIMARY GOVERNMENT</u>		
<u>ACCOUNT</u>	<u>AMOUNT</u>	<u>REASON</u>
<u>GENERAL FUND</u>		
TRANSFER FROM UTILITY FUND	\$72,477	GENERAL OPERATIONS - RECURRING
TRANSFER FROM BUTTERFIELD PID FUND	<u>\$598</u>	GENERAL OPERATIONS - NON-RECURRING
	<u>\$73,075</u>	

E. Leases

Operating Leases

The government leases equipment under noncancellable operating leases. Total costs for such leases were \$1,350 for the year ended September 30, 2017. The future minimum lease payments for these leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2018	\$ 0
2019	0
2020	0
2021	<u>0</u>
Total	<u>\$ 0</u>

Rent expenditures were \$337 for the year ended September 30, 2017. Sublease rental income was \$0 for the year ended September 30, 2017.

F. Long-term debt

The City sold \$1,272,000 Combination Tax and Limited Pledge Revenue Certificates of Obligations Revenue Bonds in 2012 to USDA Rural Development. The proceeds were to be used for the Elmendorf Municipal Building Project. The projected payout of these bonds will be through the year 2051 at an interest rate of 3.375%.

Purpose	Original Amount	Series	Rate	Current Amount
Governmental activities	\$1,272,000	2012	3.375	\$1,197,000

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

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2018	\$17,000	\$42,171
2019	18,000	41,580
2020	18,000	40,973
2021	19,000	40,348
2022	20,000	39,690
2023-2027	111,000	187,667
2028-2032	135,000	166,978
2033-2037	167,000	141,598
2038-2042	204,000	110,363
2043-2047	250,000	72,225
2048-2051	238,000	23,676
TOTALS	<u>\$1,197,000</u>	<u>\$907,268</u>

The above obligation is secured by both ad valorem taxes and utility revenues.

Capital Leases

The Capital Leases consists of the following: The City also entered into a capital lease to purchase various equipment in 2014. The equipment includes a John Deere tractor and cutter in the Business-Type Activities.

The debt will be serviced by the utility fund.

The accumulated depreciation of the above equipment is as follows:

ASSET	Business-type Activities		TOTAL
	JD TRACTOR AND LOADER	ROTARY CUTTER	
COST	\$47,390	\$12,500	\$59,890
ACCUMULATED DEPRECIATION	(37,912)	(10,000)	(47,912)
NET ASSET	\$9,478	\$2,500	\$11,978

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2017, were as follows:

YEAR	Business-type Activities	
	JD TRACTOR, LOADER, AND CUTTER	TOTAL
2018	\$9,016	\$9,016
2019	6,011	6,011
Total Minimum Lease Payments	15,027	15,027
Less: Amount Representing Interest	0	0
Present Value of Net Minimum Lease Payments	\$15,027	\$15,027

The utility fund is to service the capital lease. The security pledged for the capital lease is the actual equipment financed.

Changes in long-term liabilities are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
<u>Governmental Activities:</u>						
Bonds Payable	\$1,213,000	\$0	\$16,000	\$1,197,000	\$17,000	\$1,180,000
Net Pension Liability	0	2,561		2,561	0	2,561
Compensated Absences	14,516	17,310	14,516	17,310	17,310	0
	<u>1,227,516</u>	<u>19,871</u>	<u>30,516</u>	<u>1,216,871</u>	<u>34,310</u>	<u>1,182,561</u>
<u>Business-Type activities:</u>						
Capital Lease	24,043		9,016	15,027	9,016	6,011
Net Pension Liability	0	3,287		3,287	0	3,287
Compensated Absences	2,451	4,935	2,451	4,935	4,935	0
	<u>26,494</u>	<u>8,222</u>	<u>11,467</u>	<u>23,249</u>	<u>13,951</u>	<u>9,298</u>
Grand Total	<u>\$1,254,010</u>	<u>\$28,093</u>	<u>\$41,983</u>	<u>\$1,240,120</u>	<u>\$48,261</u>	<u>\$1,191,859</u>

Interest expense of \$40,669 on long-term debt has been shown separately on the government-wide statement of activities. There was no interest expense capitalized into the capital assets. The government-wide statement of activities includes \$48,261 as "noncurrent liabilities, due within one year".

The current amount of compensated absences at September 30, 2017 is \$22,245.

V. Other information

A. 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; injuries to employees; and natural disasters. Claim liabilities are estimated considering the effects of inflation, recent claim settlement trends (including frequency and amounts of payouts) and other economic and social factors (including the effects of specific, incremental claim adjustment expense, salvage and subrogation).

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>Year ended 09/30/17</u>	<u>Year ended 09/30/16</u>
Unpaid claims, beginning of fiscal year	\$ -0-	\$ -0-
Incurred claims (including IBNRs)		
Claim payments	<u>-0-</u>	<u>-0-</u>
Unpaid claims, end of fiscal year	<u>\$ -0-</u>	<u>\$ -0-</u>

General Liability Insurance

The City is insured for general, police officers and automobile liability. Expenditures for self-insured liabilities are accounted for in the General Fund, which will pay any liabilities incurred.

The City has joined together with other governments in the Texas Municipal League Intergovernmental Risk Pool (TML). The City pays an annual premium to TML for auto vehicle insurance coverage. The agreement with TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 to \$1,000,000 for each insurance event. The City anticipates no contingent losses. TML has published its own financial report that can be obtained from the Texas Municipal League Intergovernmental Risk Pool, Austin, Texas. The City carries commercial fidelity bonds for elected officials and for management.

Property and Casualty Insurance

Property, casualty, mobile equipment, boiler and machinery insurance is provided by TML.

Workers' Compensation Insurance

The City insures against workers' compensation claims through TML.

Group Health and Life Insurance

The City maintains a group health insurance plan for active employees and their eligible dependents. Costs are recorded in the fund from which the employees' compensation is paid.

Unemployment Compensation Insurance

The City self-insures for unemployment compensation claims through an agreement with the Texas Workforce Commission (TWC). Under the agreement, TWC administers all claims and is reimbursed by the City for claims incurred plus administrative charges.

B. Related party transaction

The Chief of Police co-owns a restaurant, Café de Elsa. The City expended \$365.67 during the year ended September 30, 2017.

C. Contingent liabilities

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

The City is not a defendant in any lawsuit at September 30, 2017.

D. Subsequent events

On November 9, 2017, the City Council approved Ordinance 11-9-2017-1 annexing 24 properties within its extraterritorial jurisdiction to the City of Elmendorf.

E. Defined Benefit Pension Plans

EXECUTIVE SUMMARY
as of **December 31, 2016**

Actuarial Valuation and Measurement Date, December 31,	2015	2016
Membership		
Number of		
- Inactive employees or beneficiaries currently receiving benefits	1	1
- Inactive employees entitled to but not yet receiving benefits	9	10
- Active employees	<u>11</u>	<u>13</u>
- Total	21	24
 Covered Payroll	 \$ 410,391	 \$ 528,758
Net Pension Liability		
Total Pension Liability	\$ 128,366	\$ 172,175
Plan Fiduciary Net Position	<u>128,993</u>	<u>166,327</u>
Net Pension Liability	\$ (627)	\$ 5,848
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	100.49%	96.60%
Net Pension Liability as a Percentage of Covered Payroll	(0.15%)	1.11%
Development of the Single Discount Rate		
Single Discount Rate	6.75%	6.75%
Long-Term Expected Rate of Return	6.75%	6.75%
Long-Term Municipal Bond Rate*	3.57%	3.78%
 Last year ending December 31 in the 100-year projection period for which projected benefit payments are fully funded	 N/A	 N/A

*Based on the Bond Buyer 20 Bond Index of general obligation bonds as of December 31, 2015 and December 29, 2016 respectively as these are the weekly rate closest to but not later than the Measurement Dates.

SCHEDULE OF PENSION EXPENSE

1. Total Service Cost	\$ 34,581
2. Interest on the Total Pension Liability	9,754
3. Changes in Current Period Benefits Including Substantively Automatic Status	0
4. Employee Contributions (Reduction of Expense)	(26,438)
5. Projected Earnings on Plan Investments (Reduction of Expense)	(8,707)
6. Administrative Expense	98
7. Other Changes in Fiduciary Net Position	5
8. Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	337
9. Recognition of Current Year Outflow (Inflow) of Resources-Assets	(2)
10. Amortization of Prior Year Outflows (Inflows) of Resources-Liabilities	404
11. Amortization of Prior Year Outflows (Inflows) of Resources-Assets	<u>1,884</u>
12. Total Pension Expense (Income)	\$ 11,916

SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE

A.	Recognition Period (or amortization years)	Total (Inflow) or Outflow of Resources	2016 Recognized in current pension expense	Deferred (Inflow)/Outflow in future expense
<u>Due to Liabilities:</u>				
Difference in expected and actual experience [actuarial (gains) or losses]	5.3100	\$ 1,791	\$ 337	\$ 1,454
Change in assumptions [actuarial (gains) or losses]	5.3100	\$ 0	\$ 0	\$ 0
			<u>\$ 337</u>	\$ 1,454
<u>Due to Assets:</u>				
Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses]	5.0000	\$ (9)	\$ (2)	\$ (7)
			<u>\$ (2)</u>	\$ (7)
Total:				<u>\$ 1,447</u>

B. Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future pension expense as follows:

	Net deferred outflows (inflows) of resources
2017	\$ 2,623
2018	2,791
2019	2,129
2020	336
2021	106
Thereafter	<u>0</u>
Total	\$ 7,985

Note to City:

GASB 68 requires 10 fiscal years of data to be provided in the Schedule of Contributions; the City will build this report over the next 10-year period. **The data in this schedule is based on the City's fiscal year-end**, not the valuation/measurement date as provided in other schedules of this report.

The Actuarially Determined Contribution (ADC) dollar amount can be calculated by multiplying the City's Full Retirement Rate (**excludes portion of rate for Supplemental Death Benefits Fund**) by the applicable payroll amount (for payroll, cities can use "gross earnings" as noted on line 1 of their TMRS-3 "Summary of Monthly Payroll Report"). The applicable months for the City's fiscal year are summed to determine the total ADC. Actual contribution amounts (employer-portion) remitted to TMRS will equal the "contributions in relation to ADC", with the deficiency/(excess) result then calculated. Covered payroll is the sum of the "gross earnings" for the applicable months of the TMRS-3 reports.

For additional detailed information, please reference the TMRS "GASB-Employer Reporting Guide."

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$38,914	\$5,848	\$(20,194)

SUMMARY OF ACTUARIAL ASSUMPTIONS

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. These assumptions apply to both the Pension Trust and the Supplemental Death Benefits Fund as applicable.

I. Economic Assumptions

A. General Inflation - General Inflation is assumed to be 2.50% per year.

B. Discount/Crediting Rates

1. System-wide Investment Return Assumption: 6.75% per year, compounded annually, composed of an assumed 2.50% inflation rate and a 4.25% net real rate of return. This rate represents the assumed return, net of all investment and administrative expenses. This is the discount rate used to value the liabilities of the individual employers.
2. For the Supplemental Death Benefits Fund, the rate is 4.25% per year, compounded annually, and derived as a blend of 5.00% for the portion of the benefits financed by advance funding contributions and a short-term interest rate for the portion of the benefits financed by current contributions.
3. Assumed discount/crediting rate for Supplemental Disability Benefits Fund and individual employee accounts: an annual rate of 5.00% for (1) accumulating prior service credit and updated service credit after the valuation date, (2) accumulating the employee current service balances, (3) determining the amount of the monthly benefit at future dates of retirement or disability, and (4) calculating the actuarial liability of the system-wide Supplemental Disability Benefits Fund.

C. Overall Payroll Growth - 3.00% per year, which is used to calculate the contribution rates for the retirement plan of each participating city as a level percentage of payroll. This represents the expected increase in total payroll. This increase rate is solely due to the effect of wage inflation on salaries, with no allowance for future membership growth. However, for cities with a decrease in the number of contributing members from 2005 to 2014, the payroll growth is decreased by half the annual percentage decrease in the count capped at a 1.0% decrease per year and rounded down to the nearest 0.1%.

D. Individual Salary Increases -

Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by the following graduated service-based scale.

<u>Years of Service</u>	<u>Rate (%)</u>
1	10.50%
2	7.50%
3	7.00%
4	6.50%
5	6.00%
6	5.50%
7	5.25%
8-10	4.75%
11	4.50%
12-13	4.25%
14-16	4.00%
17-24	3.75%
25 +	3.50%

E. Annuity Increase - The Consumer Price Index (CPI) is assumed to be 2.50% per year prospectively. For the City of Elmendorf annual annuity increases of 0.00% are assumed when calculating the TPL.

II. Demographic Assumptions

A. Termination Rates

1. For the first 10 years of service, the base table rates vary by gender, entry age, and length of service. For City of Elmendorf the base table is then multiplied by a factor of 85.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire - 63%, 2) Police - 88%, or 3) Other - 108%. A sample of the base rates follows:

Males

Age	Service									
	0	1	2	3	4	5	6	7	8	9
20	0.2920	0.2623	0.2186	0.1932	0.1850	0.1673	0.1529	0.1243	0.1022	0.0816
25	0.2653	0.2269	0.1812	0.1554	0.1429	0.1267	0.1148	0.1006	0.0926	0.0757
30	0.2451	0.2052	0.1610	0.1322	0.1079	0.0998	0.0896	0.0774	0.0744	0.0621
35	0.2505	0.2070	0.1577	0.1265	0.1050	0.0994	0.0848	0.0719	0.0621	0.0567
40	0.2467	0.2060	0.1561	0.1213	0.1046	0.0943	0.0805	0.0710	0.0601	0.0577
45	0.2268	0.1934	0.1556	0.1220	0.1053	0.0926	0.0813	0.0711	0.0605	0.0575
50	0.2078	0.1731	0.1412	0.1149	0.1016	0.0887	0.0807	0.0716	0.0604	0.0578
55	0.2003	0.1668	0.1265	0.1074	0.0861	0.0864	0.0771	0.0682	0.0609	0.0560
60	0.1999	0.1542	0.1231	0.1060	0.0790	0.0868	0.0753	0.0683	0.0571	0.0549
65	0.2000	0.1463	0.1238	0.1063	0.0803	0.0867	0.0757	0.0700	0.0547	0.0551
70	0.2000	0.1477	0.1237	0.1063	0.0802	0.0867	0.0756	0.0697	0.0551	0.0551

Females

Age	Service									
	0	1	2	3	4	5	6	7	8	9
20	0.3030	0.2790	0.2221	0.2098	0.1997	0.2021	0.1536	0.1539	0.1564	0.1574
25	0.2782	0.2409	0.2067	0.1962	0.1710	0.1663	0.1369	0.1352	0.1186	0.1125
30	0.2574	0.2188	0.1949	0.1762	0.1347	0.1348	0.1276	0.1126	0.0973	0.0804
35	0.2424	0.2118	0.1805	0.1438	0.1273	0.1238	0.1112	0.1085	0.1000	0.0769
40	0.2244	0.1993	0.1614	0.1342	0.1295	0.1097	0.1023	0.0924	0.0834	0.0733
45	0.2191	0.1853	0.1427	0.1337	0.1054	0.1017	0.0894	0.0784	0.0705	0.0725
50	0.2201	0.1793	0.1347	0.1229	0.0886	0.0881	0.0823	0.0723	0.0675	0.0617
55	0.2200	0.1738	0.1350	0.1199	0.0834	0.0806	0.0713	0.0705	0.0685	0.0551
60	0.2200	0.1523	0.1350	0.1172	0.0798	0.0843	0.0646	0.0639	0.0429	0.0379
65	0.2200	0.1431	0.1350	0.1150	0.0800	0.0857	0.0667	0.0593	0.0276	0.0280
70	0.2200	0.1447	0.1350	0.1154	0.0800	0.0854	0.0664	0.0601	0.0303	0.0298

2. After 10 years of service, base termination rates vary by gender and by the number of years remaining until first retirement eligibility. For City of Elmendorf the base table is then multiplied by a factor of 85.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire - 52%, 2) Police - 79%, or 3) Other - 115%. A sample of the base rates follows:

Years from Retirement	Male	Female
1	1.72%	2.20%
2	2.29%	2.97%
3	2.71%	3.54%
4	3.06%	4.01%
5	3.35%	4.41%
6	3.61%	4.77%
7	3.85%	5.10%
8	4.07%	5.40%
9	4.28%	5.68%
10	4.47%	5.94%
11	4.65%	6.19%
12	4.82%	6.43%
13	4.98%	6.66%
14	5.14%	6.87%
15	5.29%	7.08%

Termination rates end at first eligibility for retirement

- B. Forfeiture Rates (Withdrawal of Member Deposits from TMRS) for vested members vary by age and employer match, and they are expressed as a percentage of the termination rates shown in (A). The withdrawal rates for cities with a 2-to-1 match are shown below. 4% is added to the rates for 1-1½-to-1 cities, and 8% is added for 1-to-1 cities.

Age	Percent of Terminating Employees Choosing to Take a Refund
25	41.2%
30	41.2%
35	41.2%
40	38.0%
45	32.6%
50	27.1%
55	21.7%

Forfeiture rates end at first eligibility for retirement.

C. Service Retirees and Beneficiary Mortality Rates

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 93.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

D. Disabled Annuitant Mortality Rates

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

E. Pre-Retirement Mortality

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 54.5% and female rates multiplied by 51.5%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

F. Annuity Purchase Rates

For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027 the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

G. Disability Rates

Age	Males & Females
20	0.000004
25	0.000025
30	0.000099
35	0.000259
40	0.000494
45	0.000804
50	0.001188
55	0.001647
60	0.002180
65	0.002787

H. Service Retirement Rates, applied to both Active and Inactive Members

The base table rates vary by gender, entry age group, and age. For members under age 62, these base rates are then multiplied by 2 factors based on 1) employee contribution rate and employer match and 2) if the city has a recurring COLA.

Age	Males Entry Age Groups			Females Entry Age Groups		
	Ages 32 & Under	Ages 33-47	Ages 48 & Over	Ages 32 & Under	Ages 33-47	Ages 48 & Over
40-44	0.06	-	-	0.06	-	-
45-49	0.06	-	-	0.06	-	-
50-52	0.08	-	-	0.08	-	-
53	0.08	0.10	-	0.08	0.10	-
54	0.08	0.10	-	0.11	0.10	-
55-59	0.14	0.10	-	0.11	0.10	-
60	0.20	0.15	0.10	0.14	0.15	0.10
61	0.25	0.30	0.20	0.28	0.26	0.20
62	0.32	0.25	0.12	0.28	0.17	0.12
63	0.32	0.23	0.12	0.28	0.17	0.12
64	0.32	0.35	0.20	0.28	0.22	0.20
65	0.32	0.32	0.20	0.28	0.27	0.20
66-69	0.22	0.22	0.17	0.22	0.22	0.17
70-74	0.20	0.22	0.25	0.22	0.22	0.25
75 and over	1.00	1.00	1.00	1.00	1.00	1.00

Note: For cities without a 20-year/any age retirement provision, the rates for entry ages 32 and under are loaded by 20% for ages below 60.

Plan Design Factors Applied to Base Retirement Rates

Employer Match	Employee Contribution Rate		
	5%	6%	7%
1 - 1	0.75	0.80	0.84
1.5 - 1	0.81	0.86	0.92
2-1	0.86	0.93	1.00

Recurring COLA: 100%

No Recurring COLA: 90%

III. Methods and Assumptions

- A. Valuation of Assets - The actuarial value of assets is based on the market value of assets with a ten-year phase-in of actual investment return in excess of (less than) expected investment income. Offsetting unrecognized gains and losses are immediately recognized, with the shortest remaining bases recognized first and the net remaining bases continue to be recognized on their original timeframe. The actuarial value of assets is further adjusted by 33% of any difference between the initial value and a 15% corridor around the market value of assets, if necessary. For the purpose of determining the UAAL and annual required contribution associated with the Supplemental Death Trust, assets are valued at the Fund Value.
- B. Actuarial Cost Method: The actuarial cost method being used is known as the Entry Age Normal Actuarial Cost Method. The Entry Age Normal Actuarial Cost Method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the current city. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated. The unfunded actuarial accrued liability is paid off in accordance with a specified amortization procedure outlined in C below.

- C. Amortization Policy: For "underfunded" cities with twenty or more employees, the amortization as of the valuation date is a level percentage of payroll over a closed period using the process of "laddering". Bases that existed prior to this valuation continue to be amortized on their original schedule. Beginning January 1, 2016, all new experience losses are amortized over individual periods of not more than 25 years. Previously, some cities amortized their losses over a 30-year period. New gains (including lump sum contributions) are offset against and amortized over the same period as the current largest outstanding loss base for the specific City which in turn decreases contribution rate volatility.

Once a City reaches an "overfunded" status, all prior non-ad hoc bases are erased and the surplus for overfunded cities is amortized over a 25-year open period.

Ad hoc benefit enhancements are amortized over individual periods using a level dollar policy. The period will be based on the minimum of 15 years or the current life expectancy of the covered group.

For the December 31, 2013 actuarial valuation, there was a one-time change in the amortization policy for underfunded cities implemented in conjunction with the changes to the assumptions and cost method to minimize rate volatility associated with these changes. An initial ARC was developed using the methodology described above. For cities with a decrease in the rate compared to the rate calculated prior to changes, the amortization period for all non-ad hoc bases was shortened enough to keep the rates stable (if possible). Cities with an increase of more than 0.50% were allowed to extend the amortization periods for non-ad hoc bases up to 30 years to keep the full contribution rate from increasing. For cities with an increase of 0.50% or less, the amortization periods for all non-ad hoc bases could be extended to 25 years to keep the rate from increasing. The amortization period calculated in the prior steps was then rounded up to the nearest integer to calculate the final full contribution rate.

For the purpose of determining the annual required contribution associated with the Supplemental Death Trust, the amortization of the UAAL is done using a 25-year open period.

- D. Small City Methodology - For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, 100% for employers with 11 to 15 members, and 115% for employers with less than 100 members.

There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%).

For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than the 20 member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use $(25 - (20 - 8)) = 13$ year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be $25 - (20 - 1) = 6$ years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years.

- E. Supplemental Death Benefit - The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees. Due to the significant reserve in the Supplemental Death Trust, the SDB rate for retiree coverage is currently only one-third of the total term cost.

IV. Other Assumptions

1. Valuation payroll (used for determining the amortization contribution rate): An exponential average of the actual salaries paid during the prior fiscal years, with 33% weight given to the most recent year and 67% weight given to the expected payroll for the previous fiscal year, moved forward with one year's payroll growth rate and adjusted for changes in population.
2. Individual salaries used to project benefits: For members with more than three years of service, actual salaries from the past three fiscal years are used to determine the USC final average salary as of the valuation date. For future salaries, this three-year average is projected forward with two years of salary scale to create the salary for the year following the valuation. This value is then projected with normal salary scales.
3. Timing of benefit payments: Benefit payments are assumed to be made in the middle of the month. Although TMRS benefits are paid at the end of the month, eligibility for that payment is determined at the beginning of the month. A middle of month payment approximates the impact of the combination of eligibility determination and actual payment timing.
4. Percent married: 100% of the employees are assumed to be married.
5. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses.

6. Optional Forms: Healthy members are assumed to choose a life only benefit when they retire. Disabled members are assumed to select a 50% Joint and Survivor option when they retire.
7. Percent electing annuity on death (when eligible): For vested members not eligible for retirement, 75% of the spouses of male members and 70% of the spouses of female members are assumed to commence an immediate benefit in lieu of a deferred annuity or a refund. Those not electing an immediate benefit are assumed to take a refund. All of the spouses of married participants who die after becoming eligible for a retirement benefit are assumed to elect an annuity that commences immediately.
8. Partial Lump Sum Utilization: It is assumed that each member at retirement will withdraw 40% of their eligible account balance.
9. Inactive Population: All non-vested members of a city are assumed to take an immediate refund if they are not contributing members in another city. Vested members not contributing in another city are assumed to take a deferred retirement benefit, except for those who have terminated in the past 12 months for whom one year of forfeiture probability is assumed. The forfeiture rates for inactive members of a city who are contributing members in another city are equal to the probability of termination multiplied by the forfeiture rates shown in II(A) and II(B) respectively. These rates are applied each year until retirement eligibility. Once a member is retirement eligible, they are assumed to commence benefits based on the service retirement rates shown in II(H).
10. There will be no recoveries once disabled.
11. No surviving spouse will remarry and there will be no children's benefit.
12. Decrement timing: Decrements of all types are assumed to occur mid-year.
13. Eligibility testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
14. Decrement relativity: Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
15. Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.
16. Benefit Service: All members are assumed to accrue 1 year of eligibility service each year.

17. The decrement rates for service related decrements are based on total TMRS eligibility service.

V. Participant Data

Participant data was supplied in electronic text files. There were separate files for (i) active and inactive members, and (ii) members and beneficiaries receiving benefits.

The data for active members included birthdate, gender, service with the current city and total vesting service, salary, employee contribution account balances, as well as the data used in the next calculation of the Updated Service Credit (USC). For retired members and beneficiaries, the data included date of birth, gender, spouse's date of birth (where applicable), amount of monthly benefit, date of retirement, form of payment code, and aggregate increase in the CPI that will be used in the next calculation of the cost of living adjustment.

To the extent possible we have made use of all available data fields in the calculation of the liabilities stated in this report. Actual CPI is used to model the wear-away effect or "catch-up" when a city changes its COLA provisions. Adjustments are made for members who have service both in a city with "20 and out" retirement eligibility and one that hasn't adopted it to calculate the earliest possible retirement date.

Salary supplied for the current year was based on the annualized earnings for the year preceding the valuation date.

Assumptions were made to correct for missing, bad, or inconsistent data. These had no material impact on the results presented.

Amortization Schedule
Deferred (Inflows)/Outflows of Resources

	Remaining Recognition period (or amortization years)	Total Remaining (Inflow) or Outflow of Resources	Measurement Year						
			2016	2017	2018	2019	2020	2021	Thereafter
Due to Liabilities:									
difference in experiences (inflows) /outflows									
2016	5.3100	\$ 1,791	\$ 337	\$ 337	\$ 337	\$ 337	\$ 337	\$ 106	\$ 0
2015	3.2900	(2,134)	(648)	(648)	(648)	(190)	0	0	0
2014	2.1932	(461)	(210)	(210)	(41)	0	0	0	0
Total		\$ (521)	\$ (521)	\$ (352)	\$ 147	\$ 337	\$ 106	\$ 0	
change in assumptions (inflows) /outflows									
2015	3.2900	4,153	1,262	1,262	1,262	367	0	0	0
Total		\$ 1,262	\$ 1,262	\$ 1,262	\$ 367	\$ 0	\$ 0	\$ 0	
Due to Assets:									
excess investment returns (inflows) /outflows									
2016	5.0000	(9)	(2)	(2)	(2)	(2)	(1)	0	0
2015	4.0000	6,471	1,618	1,618	1,618	1,617	0	0	0
2014	3.0000	797	266	266	265	0	0	0	0
Total		\$ 1,882	\$ 1,882	\$ 1,881	\$ 1,615	\$ (1)	\$ 0	\$ 0	

REQUIRED SUPPLEMENTARY INFORMATION

A. Total pension liability

	2016	2015	2014
1. Service Cost	\$34,581	\$24,664	\$17,775
2. Interest (on the Total Pension Liability)	9,754	7,883	6,830
3. Changes of benefit terms	0	0	0
4. Difference between expected and actual experience	1,791	(2,782)	(881)
5. Changes of assumptions	0	5,415	0
6. Benefit payments, including refunds of employee contributions	(2,317)	(14,181)	(10,090)
7. Net change in total pension liability	43,809	20,999	13,634
8. Total pension liability -- beginning	128,366	107,367	93,733
9. Total pension liability - ending	172,175	128,366	107,367

B. Plan fiduciary net position

1. Contributions - employer	4,600	4,545	1,709
2. Contributions - employee	26,438	20,520	16,434
3. Net investment income	8,716	174	5,958
4. Benefit payments, including refunds of employee contributions	(2,317)	(14,181)	(10,090)
5. Administrative Expense	(98)	(106)	(62)
6. Other	(5)	(5)	(5)
7. Net change in plan fiduciary net position	37,334	10,947	13,944
8. Plan fiduciary net position - beginning	128,993	118,046	104,102
9. Plan fiduciary net position - ending*	166,327	128,993	118,046

C. Net pension liability (A.9 - B.9)

\$5,848	(\$627)	(\$10,679)
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D. Plan fiduciary net position as a percentage
of the total pension liability (B.9 / A.9)

96.60%	100.49%	109.95%
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E. Covered-employee payroll (B.9 / A.9)

\$528,758	\$410,391	\$328,689
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F. Net pension liability as a percentage
of covered employee payroll (C/E)

1.11%	-0.15%	-3.25%
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SCHEDULE OF CONTRIBUTIONS
Last 10 Fiscal Years (will ultimately be displayed)

	2014	2015	2016	2017
Actuarially Determined Contribution	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Contributions in relation to the actuarially determined contribution	\$ <u>xxx,xxx</u>	\$ <u>xxx,xxx</u>	\$ <u>xxx,xxx</u>	\$ <u>xxx,xxx</u>
Contribution deficiency (excess)	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Covered payroll	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Contributions as a percentage of covered payroll	xx.xx%	xx.xx%	xx.xx%	xx.xx%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	18 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Other Information:	
Notes	There were no benefit changes during the year.