

ANNUAL FINANCIAL REPORT

of the

**CITY OF
SHOREACRES, TEXAS**

For the Year Ended
September 30, 2016

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CITY OF SHOREACRES, TEXAS

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September 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Shoreacres, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the major fund of the City of Shoreacres, Texas (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 City'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 City'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, and the major fund of the City as of September 30, 2016, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, 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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
September 12, 2017

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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CITY OF SHOREACRES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

The Statement of Activities presents information showing how the City'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 – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here, including public safety (police), public works, municipal court, culture and recreation, and general government. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water, sewer, and sanitation services.

The government-wide financial statements can be found after the MD&A within this report.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

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 the City'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 City'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 maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund for reporting purposes.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

CITY OF SHOREACRES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

Proprietary Funds

The City maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water, sewer, and sanitation operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and a schedule of changes in net pension liability and related ratios and a schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$9,407,527 as of year end. This compares with \$9,932,333 from the prior fiscal year. The largest portion of the City's net position, 90 percent, reflects its investments in capital assets (e.g., land, City hall, police station, fleet equipment, drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

CITY OF SHOREACRES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

Statement of Net Position:

The following table provides a condensed Statement of Net Position:

	2016			2015		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 1,112,812	\$ 102,362	\$ 1,215,174	\$ 1,207,942	\$ 259,888	\$ 1,467,830
Capital assets, net	5,825,529	2,654,361	8,479,890	6,235,851	2,526,742	8,762,593
Total Assets	<u>6,938,341</u>	<u>2,756,723</u>	<u>9,695,064</u>	<u>7,443,793</u>	<u>2,786,630</u>	<u>10,230,423</u>
Deferred outflows - pension	112,778	25,446	138,224	34,613	7,598	42,211
Total Deferred Outflows of Resources	<u>112,778</u>	<u>25,446</u>	<u>138,224</u>	<u>34,613</u>	<u>7,598</u>	<u>42,211</u>
Long-term liabilities	81,393	14,225	95,618	62,260	9,718	71,978
Other liabilities	132,025	164,909	296,934	168,780	94,306	263,086
Total Liabilities	<u>213,418</u>	<u>179,134</u>	<u>392,552</u>	<u>231,040</u>	<u>104,024</u>	<u>335,064</u>
Deferred inflows - pension	27,066	6,143	33,209	4,294	943	5,237
Total Deferred Inflows of Resources	<u>27,066</u>	<u>6,143</u>	<u>33,209</u>	<u>4,294</u>	<u>943</u>	<u>5,237</u>
Net investment in capital assets	5,825,529	2,654,361	8,479,890	6,235,851	2,526,742	8,762,593
Unrestricted	985,106	(57,469)	927,637	1,007,221	162,519	1,169,740
Total Net Position	<u>\$ 6,810,635</u>	<u>\$ 2,596,892</u>	<u>\$ 9,407,527</u>	<u>\$ 7,243,072</u>	<u>\$ 2,689,261</u>	<u>\$ 9,932,333</u>

The remaining balance of unrestricted net position, \$927,637 or ten percent, may be used to meet the City's ongoing obligation to citizens and creditors.

As of September 30, 2016, the City reported deferred outflows and inflows of resources related to its pension plan of \$138,224 and \$33,209 respectively. In addition, the City reported a net pension asset of \$16,541. The detail of these amounts is further discussed in the notes to the financial statements.

CITY OF SHOREACRES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

Statement of Activities:

The following table provides a summary of the City's changes in net position:

	2016			2015		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 279,135	\$ 604,204	\$ 883,339	\$ 206,447	\$ 495,416	\$ 701,863
Operating grants	27,941	-	27,941	125,543	-	125,543
Capital grants	-	-	-	91,777	-	91,777
General revenues:						
Ad valorem taxes	892,747	-	892,747	879,033	-	879,033
Sales taxes	90,932	-	90,932	84,813	-	84,813
Franchise and local taxes	97,880	-	97,880	95,138	-	95,138
Investment income	4,852	565	5,417	3,187	381	3,568
Gain on sale of capital assets	11,020	-	11,020	15,601	7,082	22,683
Other revenues	29,622	62,833	92,455	10,243	61,374	71,617
Total Revenues	<u>1,434,129</u>	<u>667,602</u>	<u>2,101,731</u>	<u>1,511,782</u>	<u>564,253</u>	<u>2,076,035</u>
Expenses						
General government	567,299	-	567,299	468,777	-	468,777
Public safety	587,534	-	587,534	605,873	-	605,873
Public works	532,385	-	532,385	414,615	-	414,615
Municipal court	87,126	-	87,126	78,407	-	78,407
Culture and recreation	42,222	-	42,222	85,344	-	85,344
Water and sewer	-	809,971	809,971	-	561,730	561,730
Total Expenses	<u>1,816,566</u>	<u>809,971</u>	<u>2,626,537</u>	<u>1,653,016</u>	<u>561,730</u>	<u>2,214,746</u>
Increase (Decrease) in Net Position Before Transfers	(382,437)	(142,369)	(524,806)	(141,234)	2,523	(138,711)
Transfers	(50,000)	50,000	-	(259,466)	259,466	-
Change in Net Position	<u>(432,437)</u>	<u>(92,369)</u>	<u>(524,806)</u>	<u>(400,700)</u>	<u>261,989</u>	<u>(138,711)</u>
Beginning net position	7,243,072	2,689,261	9,932,333	7,643,772	2,427,272	10,071,044
Ending Net Position	<u>\$ 6,810,635</u>	<u>\$ 2,596,892</u>	<u>\$ 9,407,527</u>	<u>\$ 7,243,072</u>	<u>\$ 2,689,261</u>	<u>\$ 9,932,333</u>

The City's net position decreased by \$524,806 during the current fiscal year. This net change can be attributed to several factors. Total revenues increased by \$25,696 primarily due to an increase in charges for services and other revenue. Total expenses increased by \$411,791 due to increases in general government, public works, municipal court, and water and sewer expenses.

Total revenues for the governmental activities decreased by five percent when compared to the previous year. This decrease is attributable to a decrease in operating and capital grants. The increase in charges for services can be attributed to more fines and forfeitures collected in the current fiscal year. Property tax revenue increased due to higher property tax valuations in the current year. Expenses increased ten percent compared to the previous year as a result of increased spending for general government and public works. The increase in general

CITY OF SHOREACRES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

government and public works expenses is related to an increase in salary and benefits, as well as repair and maintenance costs.

Overall, business-type activity revenues increased by \$103,349 when compared to the previous year. This increase in revenue is attributable to increase in charges for services and other revenue. Expenses increased \$248,241 due mostly to an increase in outside services.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The general fund is the chief operating fund of the City. There was a decrease in the fund balance of \$50,105 from the prior year. The decrease is due to an increase in expenditures related to general government and public works. Public works expenditures increased due to wages, maintenance and repair costs, as well as planned purchases for vehicles. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total general fund balance represents 63 percent of total general fund expenditures.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The City had a total positive net budget variance of \$76,248 for the general fund. Total actual revenues were more than budgeted revenues by \$33,340. Actual expenditures were \$217,471 less than budgeted expenditures.

CAPITAL ASSETS

At the end fiscal year 2016, the City's governmental and business-type activities had invested \$8,479,890 in a variety of capital assets and infrastructure (net of depreciation). This represents a net decrease of \$410,285.

Major capital asset events during the year included the following:

- Purchase of two 2016 Chevy Tahoes in the amount of \$84,102.
- Purchase a 24HP 6" Bare Pump in the amount of \$11,414.

More detailed information about the City's capital assets is presented in note III.C. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City reported \$95,618 in compensated absences as a long-term liability.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

CITY OF SHOREACRES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's budgeted expenditures for fiscal year 2017 total \$1,500,155 in the general fund and \$623,471 in the water and sewer fund. The City Council adopted a 2016 tax rate of \$0.765505 per \$100 valuation.

The City continues to face challenges normal for a city environment and is seeking to provide the best services possible to its residents.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the finances of the City. Questions concerning this report or requests for additional financial information should be directed to David Stall, City Manager, City of Shoreacres, 601 Shore Acres Boulevard, Shoreacres, Texas, 77571 or call (281) 471-2244.

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BASIC FINANCIAL STATEMENTS

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CITY OF SHOREACRES, TEXAS

STATEMENT OF NET POSITION

September 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash	\$ 247,562	\$ 14,945	\$ 262,507
Investments	660,138	-	660,138
Receivables, net	168,280	107,708	275,988
Internal balances	22,789	(22,789)	-
Net pension asset	14,043	2,498	16,541
	1,112,812	102,362	1,215,174
Capital assets:			
Nondepreciable	175,164	7,839	183,003
Net depreciable capital assets	5,650,365	2,646,522	8,296,887
	5,825,529	2,654,361	8,479,890
Total Assets	6,938,341	2,756,723	9,695,064
<u>Deferred Outflows of Resources</u>			
Deferred outflows - pension	112,778	25,446	138,224
	112,778	25,446	138,224
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	111,003	106,121	217,124
Due to other governments	21,022	-	21,022
Customer deposits	-	58,788	58,788
	132,025	164,909	296,934
Noncurrent liabilities:			
Due within one year	73,254	12,803	86,057
Due in more than one year	8,139	1,422	9,561
	81,393	14,225	95,618
Total Liabilities	213,418	179,134	392,552
<u>Deferred Inflows of Resources</u>			
Deferred inflows - pension	27,066	6,143	33,209
	27,066	6,143	33,209
<u>Net Position</u>			
Net investment in capital assets	5,825,529	2,654,361	8,479,890
Unrestricted	985,106	(57,469)	927,637
Total Net Position	\$ 6,810,635	\$ 2,596,892	\$ 9,407,527

See Notes to Financial Statements.

CITY OF SHOREACRES, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Governmental Activities
Primary Government				
Governmental Activities				
General government	\$ 567,299	\$ -	\$ 27,941	\$ (539,358)
Public safety	587,534	256,835	-	(330,699)
Public works	532,385	22,300	-	(510,085)
Municipal court	87,126	-	-	(87,126)
Culture and recreation	42,222	-	-	(42,222)
Total Governmental Activities	1,816,566	279,135	27,941	(1,509,490)
Business-Type Activities				
Water/sewer services	809,971	604,204	-	-
Total Business-Type Activities	809,971	604,204	-	-
Total Primary Government	\$ 2,626,537	\$ 883,339	\$ 27,941	(1,509,490)

General Revenues:

Taxes	
Ad valorem taxes	892,747
Sales taxes	90,932
Franchise and local taxes	97,880
Investment income	4,852
Gain on sale of capital assets	11,020
Other revenues	29,622
Transfers	(50,000)

Total General Revenues and Transfers

1,077,053

Change in Net Position

(432,437)

Beginning net position

7,243,072

Ending Net Position

\$ 6,810,635

See Notes to Financial Statements.

**Net (Expense) Revenue and
Change in Net Position
Primary Government**

<u>Business-Type Activities</u>	<u>Total</u>
\$ -	\$ (539,358)
-	(330,699)
-	(510,085)
-	(87,126)
-	(42,222)
-	(1,509,490)
<u>(205,767)</u>	<u>(205,767)</u>
<u>(205,767)</u>	<u>(205,767)</u>
<u>(205,767)</u>	<u>(1,715,257)</u>

-	892,747
-	90,932
-	97,880
565	5,417
-	11,020
62,833	92,455
50,000	-
<u>113,398</u>	<u>1,190,451</u>
<u>(92,369)</u>	<u>(524,806)</u>
<u>2,689,261</u>	<u>9,932,333</u>
<u>\$ 2,596,892</u>	<u>\$ 9,407,527</u>

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CITY OF SHOREACRES, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2016

		<u>General</u>
<u>Assets</u>		
Cash	\$	247,562
Investments		660,138
Receivables, net		168,280
Due from other funds		22,789
Total Assets	\$	<u>1,098,769</u>
<u>Liabilities</u>		
Accounts payable and accrued liabilities	\$	111,003
Due to other governments		21,022
Total Liabilities		<u>132,025</u>
<u>Deferred Inflows of Resources</u>		
Unavailable revenue - property taxes		37,327
Unavailable revenue - municipal court		35,528
Total Deferred Inflows of Resources		<u>72,855</u>
<u>Fund Balances</u>		
Unassigned		893,889
Total Fund Balances		<u>893,889</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$	<u>1,098,769</u>
Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - nondepreciable		175,164
Capital assets - net depreciable		5,650,365
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
		72,855
Long-term liabilities and deferred outflows/inflows are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Net pension asset		14,043
Deferred outflows - pension		112,778
Deferred inflows - pension		(27,066)
Noncurrent liabilities due within one year		(73,254)
Noncurrent liabilities due in more than one year		(8,139)
Net Position of Governmental Activities	\$	<u>6,810,635</u>

See Notes to Financial Statements.

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CITY OF SHOREACRES, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended September 30, 2016

<u>Revenues</u>	<u>General</u>
Ad valorem taxes	\$ 883,124
Sales taxes	90,932
Franchise and local taxes	97,880
Licenses and permits	22,300
Fines and forfeitures	208,112
Charges for services	27,157
Intergovernmental	27,941
Investment income	4,852
Other revenue	29,622
Total Revenues	<u>1,391,920</u>
<u>Expenditures</u>	
Current:	
General government	552,712
Public safety	527,726
Municipal court	86,244
Culture and recreation	38,162
Public works	116,957
Capital outlay	89,324
Total Expenditures	<u>1,411,125</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(19,205)</u>
<u>Other Financing Sources (Uses)</u>	
Transfers (out)	(50,000)
Proceeds from the sale of capital assets	19,100
Total Other Financing (Uses)	<u>(30,900)</u>
Net Change in Fund Balance	(50,105)
Beginning fund balance	943,994
Ending Fund Balance	<u>\$ 893,889</u>

See Notes to Financial Statements.

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CITY OF SHOREACRES, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

Net changes in fund balances - total governmental funds \$ (50,105)

Amounts reported for governmental activities in the Statement of Activities 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.

Capital outlay	84,102
Disposals of capital assets, net	(8,080)
Depreciation expense	(486,344)

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

Deferred property tax revenue	9,623
Deferred municipal revenue	21,566

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

Compensated absences	7,550
Net pension asset	(66,142)
Change in deferred outflows - pension	78,165
Change in deferred inflows - pension	(22,772)
	(22,772)

Change in Net Position of Governmental Activities	\$ (432,437)
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See Notes to Financial Statements.

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CITY OF SHOREACRES, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2016

	<u>Water and Sewer</u>
<u>Assets</u>	
Current Assets	
Cash	\$ 14,945
Receivables, net	107,708
Net pension asset	2,498
Total Current Assets	<u>125,151</u>
Noncurrent Assets	
Capital assets:	
Nondepreciable	7,839
Net depreciable capital assets	2,646,522
Total Noncurrent Assets	<u>2,654,361</u>
Total Assets	<u>2,779,512</u>
 <u>Deferred Outflows of Resources</u>	
Deferred outflows - pension	<u>25,446</u>
 <u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued liabilities	106,121
Customer deposits	58,788
Due to other funds	22,789
Total Current Liabilities	<u>187,698</u>
Noncurrent Liabilities	
Due within one year	12,803
Due in more than one year	1,422
Total Noncurrent Liabilities	<u>14,225</u>
Total Liabilities	<u>201,923</u>
 <u>Deferred Inflows of Resources</u>	
Deferred inflows - pension	<u>6,143</u>
 <u>Net Position</u>	
Net investment in capital assets	2,654,361
Unrestricted	(57,469)
Total Net Position	<u>\$ 2,596,892</u>

See Notes to Financial Statements.

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CITY OF SHOREACRES, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended September 30, 2016

	Water and Sewer
<u>Operating Revenues</u>	
Water charges	\$ 357,259
Sewer charges	147,925
Sanitation	99,020
Total Operating Revenues	604,204
<u>Operating Expenses</u>	
Personnel services	169,260
Water services	48,604
Solid waste disposal	263,525
Recycling services	29,428
Materials and supplies	67,007
Maintenance	17,586
Fuel	1,980
Utilities	28,435
Depreciation	131,750
Other	52,396
Total Operating Expenses	809,971
Operating (Loss)	(205,767)
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	565
Insurance proceeds	2,207
Miscellaneous revenue	60,626
Total Nonoperating Revenues	63,398
(Loss) Before Transfers	(142,369)
Transfers	50,000
Change in Net Position	(92,369)
Beginning net position	2,689,261
Ending Net Position	\$ 2,596,892

See Notes to Financial Statements.

CITY OF SHOREACRES, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 1 of 2) For the Year Ended September 30, 2016

	<u>Water and Sewer</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 590,320
Payments to suppliers	(393,893)
Payments to employees	(166,463)
Net Cash Provided by Operating Activities	<u>29,964</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Insurance proceeds	2,207
Miscellaneous revenue	60,626
Net transfer from funds	50,000
Net Cash Provided by Noncapital Financing Activities	<u>112,833</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(259,369)
Net Cash (Used) by Capital and Related Financing Activities	<u>(259,369)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	565
Net Cash Provided by Investing Activities	<u>565</u>
Net (Decrease) in Cash and Cash Equivalents	(116,007)
Beginning cash and cash equivalents	<u>130,952</u>
Ending Cash and Cash Equivalents	<u><u>\$ 14,945</u></u>

CITY OF SHOREACRES, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 2 of 2) For the Year Ended September 30, 2016

	<u>Water and Sewer</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating (loss)	\$ (205,767)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	131,750
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Current Assets:	
Accounts receivable	(18,251)
Due from other funds	21,878
Net pension asset	15,103
Deferred outflows - pension	(17,848)
Increase (Decrease) in Current Liabilities:	
Accounts payable and accrued liabilities	70,401
Customer deposits	4,367
Due to other funds	22,789
Compensated absences	342
Deferred inflows - pension	5,200
Net Cash Provided by Operating Activities	<u>\$ 29,964</u>

See Notes to Financial Statements.

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CITY OF SHOREACRES, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Shoreacres, Texas (the "City") was incorporated under the laws of the State of Texas in 1949. The City is a "General Law City", with a Mayor and five Council members elected to two-year terms. City Hall functions as a courthouse, Council chambers, meeting room, and administrative building.

The City provides the following services: public safety including police, fire, and emergency medical services; public works; municipal court services; culture and recreation; water, sewer and sanitation services; and general administration including permits and inspections.

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

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

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental fund:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales and franchise taxes, fines and forfeitures, as well as licenses and permits. Expenditures include general government, public safety, public works, municipal court and culture and recreation. The general fund is always considered a major fund for reporting purposes.

The City reports the following enterprise fund:

The *enterprise fund* is used to account for and report the operations that provide water, sewer, and sanitation services. These services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and sewer fund is considered a major fund for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City'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. For the purpose of the statement of cash flows, the proprietary fund type considers temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

The City reports all investments at fair value, except for certain investment pools and money market investments. Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost. The investment pool operates in accordance with appropriate state laws and regulations and is reported at amortized cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code.

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

Certain payments to vendors reflecting costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. 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. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The City chose not to report general infrastructure assets retroactively, as permitted by GASB Statement No. 34 for smaller governments. The City will prospectively report general infrastructure assets acquired or constructed after October 1, 2003, in the statement of net position in the period they acquire or construct those assets.

Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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.

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

<u>Asset Description</u>	<u>Useful Life</u>
Buildings and improvements	10 to 30 years
Machinery and equipment	3 to 20 years
Water facilities	20 to 40 years
Vehicles	5 years
Infrastructure	20 to 30 years

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has three items that qualify for reporting in this category on the government-wide Statement of Net Position. Deferred outflows of resources are recognized as a result of the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. Deferred charges have been recognized as a result of changes in actuarial assumptions related to the City's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as an increase to the net pension asset during the measurement period in which the contributions were made.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized as a result of differences between the actuarial expectations and the actual economic experience related to the City's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and municipal court revenue. These amount are deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Compensated Employee Absences

Employees earn vacation time based on years of service with the City, up to a maximum of 20 days per year. Employees may accrue up to a maximum of 30 days of vacation time. Upon termination of employment, any unused vacation time is paid as part of the final paycheck.

Sick leave accrues on the basis of one day per month of employment. A maximum of 65 days may be accrued. Employees are granted sick pay only for actual sick time. Payment for no more than 160 hours for sick leave accrued with two years or more of continued employment with the City will be paid upon resignation, retirement, or in case of death, paid to the estate. The estimated amount that will be paid as compensation for services provided is recorded as a liability in the Statement of Net Position. All eligible time is accrued when incurred in the government-wide and proprietary fund financial statements.

7. Long-Term Obligations

In 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.

8. Net Position Flow Assumption

Sometimes the City 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 City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Estimates

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

12. Pensions

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

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

G. Revenues and Expenditures/Expenses

1. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid.

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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 enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund 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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Prior to the beginning of each fiscal year, the City Administrator submits to the City Council a proposed budget for the General and Water and Sewer Fund. The City Council uses this as a basis to formulate the operating budget for the upcoming year, which includes proposed expenditures and the means of financing those expenditures.

Public hearings are conducted at which all interested persons' comments concerning the budget are heard.

The budget is legally enacted by the City Council. Budgetary control is maintained at the fund level. All annual appropriations lapse at fiscal year-end.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and temporary investments include petty cash on hand in various departments and demand deposit accounts. As of year end, the City had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Certificates of Deposit	\$ 249,866	0.39
TexPool	410,272	N/A
	\$ 660,138	

Concentration of credit risk. With the exception of U.S. Treasury securities, bond funds, and authorized pools, the City's investment policy does not allow for an investment in any one issuer that is in excess of 50 percent of the portfolio's total investments.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. The Federal Deposit Insurance Corporation (FDIC) insures deposits held at banks and thrift institutions up to limited amounts. As of September 30, 2016, the City’s deposits were fully insured.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rates TexPool ‘AAAm’. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less and weighted average lives of 120 days or less, investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool’s authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool’s liquidity.

B. Receivables

The following comprise receivable balances at year end:

	General	Water and Sewer	Total
Accounts	\$ -	\$ 107,708	\$ 107,708
Ad valorem	38,482	-	38,482
Sales taxes	16,831	-	16,831
Other	302,057	-	302,057
Less allowance	(189,090)	-	(189,090)
Totals	\$ 168,280	\$ 107,708	\$ 275,988

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

C. Capital Assets

A summary of changes in capital assets for the year end is as follows:

	Primary Government			Ending Balance
	*Beginning Balance	Increases	Decreases	
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 175,164	\$ -	\$ -	\$ 175,164
Total capital assets, not being depreciated	<u>175,164</u>	<u>-</u>	<u>-</u>	<u>175,164</u>
Capital assets, being depreciated:				
Buildings and improvements	863,179	-	-	863,179
Leasehold improvements	175,596	-	-	175,596
Vehicles and equipment	388,779	84,102	(46,309)	426,572
Infrastructure	5,776,608	-	-	5,776,608
Total capital assets being depreciated	<u>7,204,162</u>	<u>84,102</u>	<u>(46,309)</u>	<u>7,241,955</u>
Less accumulated depreciation for:				
Buildings and improvements	(85,968)	(21,825)	-	(107,793)
Leasehold improvements	(70,778)	(9,973)	-	(80,751)
Vehicles and equipment	(282,597)	(69,439)	38,229	(313,807)
Infrastructure	(704,132)	(385,107)	-	(1,089,239)
Total accumulated depreciation	<u>(1,143,475)</u>	<u>(486,344)</u>	<u>38,229</u>	<u>(1,591,590)</u>
Total capital assets being depreciated net	<u>6,060,687</u>	<u>(402,242)</u>	<u>(8,080)</u>	<u>5,650,365</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,235,851</u>	<u>\$ (402,242)</u>	<u>\$ (8,080)</u>	<u>5,825,529</u>
		Net Investment in Capital Assets		<u>\$ 5,825,529</u>

* Beginning balances have been restated.

Depreciation was charged to governmental functions as follows:

General government	\$ 19,387
Public safety	48,332
Culture and recreation	4,060
Public works	414,565
Total Governmental Activities Depreciation Expense	<u>\$ 486,344</u>

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

The following is a summary of changes in capital assets for business-type activities for the year end:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 7,839	\$ -	\$ -	\$ 7,839
Total capital assets, not being depreciated	<u>7,839</u>	<u>-</u>	<u>-</u>	<u>7,839</u>
Capital assets, being depreciated:				
Buildings and improvements	869,253	-	-	869,253
Infrastructure	164,680	247,956	-	412,636
Land improvements	19,940	-	-	19,940
Water facilities	1,818,914	-	-	1,818,914
Vehicles and equipment	38,970	11,414	-	50,384
Total capital assets being depreciated	<u>2,911,757</u>	<u>259,370</u>	<u>-</u>	<u>3,171,127</u>
Less accumulated depreciation for:				
Buildings and improvements	(48,773)	(22,160)	-	(70,933)
Infrastructure	(16,591)	(20,799)	-	(37,390)
Land improvements	(10,938)	(1,329)	-	(12,267)
Water facilities	(287,268)	(81,325)	-	(368,593)
Vehicles and equipment	(29,284)	(6,138)	-	(35,422)
Total accumulated depreciation	<u>(392,854)</u>	<u>(131,751)</u>	<u>-</u>	<u>(524,605)</u>
Total capital assets being depreciated net	<u>2,518,903</u>	<u>127,619</u>	<u>-</u>	<u>2,646,522</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,526,742</u>	<u>\$ 127,619</u>	<u>\$ -</u>	<u>2,654,361</u>
		Net Investment in Capital Assets		<u>\$ 2,654,361</u>

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

D. Long-Term Debt

The following is a summary of changes in the City's total long-term liabilities for the year end. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 88,943	\$ 25,274	\$ 32,824	\$ 81,393	\$ 73,254
Total Governmental Activities	<u>\$ 88,943</u>	<u>\$ 25,274</u>	<u>\$ 32,824</u>	<u>\$ 81,393</u>	<u>\$ 73,254</u>
				\$ 8,139	
Business-Type Activities:					
Compensated absences	\$ 13,883	\$ 5,281	\$ 4,939	\$ 14,225	\$ 12,803
Total Business-Type Activities	<u>\$ 13,883</u>	<u>\$ 5,281</u>	<u>\$ 4,939</u>	<u>\$ 14,225</u>	<u>\$ 12,803</u>
				\$ 1,422	

E. Interfund Transactions

The compositions of interfund balances as of year end were as follows:

Transfer Out	Transfer In	Amounts
General fund	Water and sewer fund	\$ 50,000
		<u>\$ 50,000</u>
Receivable Fund	Payable Fund	Amounts
General fund	Water and sewer fund	22,789
		<u>\$ 22,789</u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

F. Restatement of Net Position

The City has restated beginning net position to adjust for certain accumulated depreciation that was not accounted for in the prior year.

	Governmental Activities
Beginning net position - as reported	\$ 7,370,654
Restatement - accumulated depreciation	(127,582)
Beginning net position - restated	<u>\$ 7,243,072</u>

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

IV. 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; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

B. Contingent Liabilities

Amounts received or receivable from granting 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 of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that resolution of these matters will not have a material adverse effect of the financial condition of the City.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plan

Texas Municipal Retirement System

Plan Description

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

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

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

Benefits Provided

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

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

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

	2016	2015
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yr/s of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	5	
Inactive employees entitled to, but not yet receiving, benefits	17	
Active employees	13	
Total	35	

Contributions

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

Employees for the City were required to contribute five percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.44 percent and 5.20 percent in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2016 were \$37,352, which were equal to the required contributions.

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

Net Pension Liability (Asset)

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

Actuarial Assumptions

The TPL in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7.00 percent to 6.75 percent. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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

Discount Rate

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

Changes in the NPL(A)

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Changes for the year:			
Service cost	\$ 72,260	\$ -	\$ 72,260
Interest	104,802	-	104,802
Change of benefit terms	-	-	-
Difference between expected and actual experience	(46,685)	-	(46,685)
Changes of assumptions	23,562	-	23,562
Contributions - employer	-	37,438	(37,438)
Contributions - employee	-	34,409	(34,409)
Net investment income	-	2,348	(2,348)
Benefit payments, including refunds of employee contributions	(64,018)	(64,018)	-
Administrative expense	-	(1,430)	1,430
Other changes	-	(71)	71
Net Changes	89,921	8,676	81,245
Balance at December 31, 2014	1,493,054	1,590,840	(97,786)
Balance at December 31, 2015	\$ 1,582,975	\$ 1,599,516	\$ (16,541)

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

Sensitivity of the NPL(A) to Changes in the Discount Rate

The following presents the NPL(A) of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NPL(A) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability(Asset)	\$ 224,296	\$ (16,541)	\$ (210,261)

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2016, the City recognized net pension expense of \$49,125.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 33,209
Changes in actuarial assumptions	16,529	-
Difference between projected and actual investment earnings	94,846	-
Contributions subsequent to the measurement date	26,850	-
Total	\$ 138,225	\$ 33,209

\$26,850 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction/increase of the NPA for the fiscal year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Pension Expense Amount
2017	\$ 18,259
2018	18,719
2019	19,386
2020	21,802
2021	-
Thereafter	-
Total	\$ 78,166

CITY OF SHOREACRES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

D. Other Post Employment Benefits

1. TMRS Supplemental Death Benefit Fund

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit," or OPEB. For the year ended September 30, 2016, the City offered the supplemental death benefit to both active and retired employees.

Contributions

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

The City's contributions to the TMRS SDBF for fiscal years ended 2016, and 2015, were \$197, and \$185, respectively. The City's contribution rates for the past three years are shown below:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Req. Contrib. (Rate)	0.03%	0.03%	0.02%
Actual Contribution Made	0.03%	0.03%	0.02%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SHOREACRES, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Budget as Amended</u>		
Revenues				
Ad valorem taxes	\$ 949,624	\$ 949,624	\$ 883,124	\$ (66,500)
Sales taxes	83,750	83,750	90,932	7,182
Franchise and local taxes	84,500	84,500	97,880	13,380
Licenses and permits	25,000	25,000	22,300	(2,700)
Fines and forfeitures	162,000	162,000	208,112	46,112
Charges for services	28,456	28,456	27,157	(1,299)
Intergovernmental	1,000	1,000	27,941	26,941
Investment income	3,250	3,250	4,852	1,602
Other revenue	21,000	21,000	29,622	8,622
Total Revenues	<u>1,358,580</u>	<u>1,358,580</u>	<u>1,391,920</u>	<u>33,340</u>
Expenditures				
Current:				
General government	532,422	532,422	552,712	(20,290)
Public safety	593,768	593,768	527,726	66,042
Public works	189,617	189,617	116,957	72,660
Municipal court	151,811	151,811	86,244	65,567
Culture and recreation	80,978	80,978	38,162	42,816
Capital outlay	80,000	80,000	89,324	(9,324)
Total Expenditures	<u>1,628,596</u>	<u>1,628,596</u>	<u>1,411,125</u>	<u>217,471</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(270,016)</u>	<u>(270,016)</u>	<u>(19,205)</u>	<u>250,811</u>
Other Financing Sources (Uses)				
Transfers in	143,663	143,663	-	(143,663)
Transfers (out)	-	-	(50,000)	(50,000)
Proceeds from sale of capital assets	-	-	19,100	19,100
Total Other Financing Sources Uses	<u>143,663</u>	<u>143,663</u>	<u>(30,900)</u>	<u>(174,563)</u>
Net Change in Fund Balance	<u>\$ (126,353)</u>	<u>\$ (126,353)</u>	<u>(50,105)</u>	<u>\$ 76,248</u>
Beginning fund balance			<u>943,994</u>	
Ending Fund Balance			<u>\$ 893,889</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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CITY OF SHOREACRES, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2016

	Measurement Year*	
	2014	2015
Total Pension Liability		
Service cost	\$ 64,456	\$ 72,260
Interest (on the total pension liability)	97,657	104,802
Changes of benefit terms	-	-
Difference between expected and actual experience	(7,625)	(46,685)
Change of assumptions	-	23,562
Benefit payments, including refunds of employee contributions	(48,621)	(64,018)
Net Change in Total Pension Liability	105,867	89,921
Beginning total pension liability	1,387,187	1,493,054
Ending Total Pension Liability	\$ 1,493,054	\$ 1,582,975
Plan Fiduciary Net Position		
Contributions - employer	\$ 28,959	\$ 37,437
Contributions - employee	33,009	34,409
Net investment income	85,419	2,349
Benefit payments, including refunds of employee contributions	(48,621)	(64,018)
Administrative expense	(892)	(1,430)
Other	(73)	(71)
Net Change in Plan Fiduciary Net Position	97,801	8,676
Beginning plan fiduciary net position	1,493,039	1,590,840
Ending Plan Fiduciary Net Position	\$ 1,590,840	\$ 1,599,516
Net Pension (Asset)	\$ (97,786)	\$ (16,541)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	106.55%	101.04%
Covered Employee Payroll	\$ 660,180	\$ 688,186
Net Pension (Asset) as a Percentage of Covered Employee Payroll	-14.81%	-2.40%

*Only two years of information is currently available. The City will build this schedule over the next eight-year period.

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CITY OF SHOREACRES, TEXAS

SCHEDULE OF CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2016

	Fiscal Year*		
	2014	2015	2016
Actuarially determined contribution	\$ 28,643	\$ 34,840	\$ 37,352
Contributions in relation to the actuarially determined contribution	(28,643)	(34,840)	(37,352)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
 Covered employee payroll	 \$ 658,853	 \$ 675,614	 \$ 709,393
 Contributions as a percentage of covered employee payroll	 4.35%	 5.16%	 5.27%

*Only three years of information is currently available. The City will build this schedule over the next seven-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
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.

3. Other Information:

There were no benefit changes during the year.

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