

ANNUAL FINANCIAL REPORT

of the

CITY OF SCHULENBURG, TEXAS

For the Year Ended
September 30, 2015

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CITY OF SCHULENBURG, TEXAS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

In 2015, the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

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, schedules 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements and schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

*B*ELT *H*ARRIS *P*ECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
April 21, 2016

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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CITY OF SCHULENBURG, TEXAS

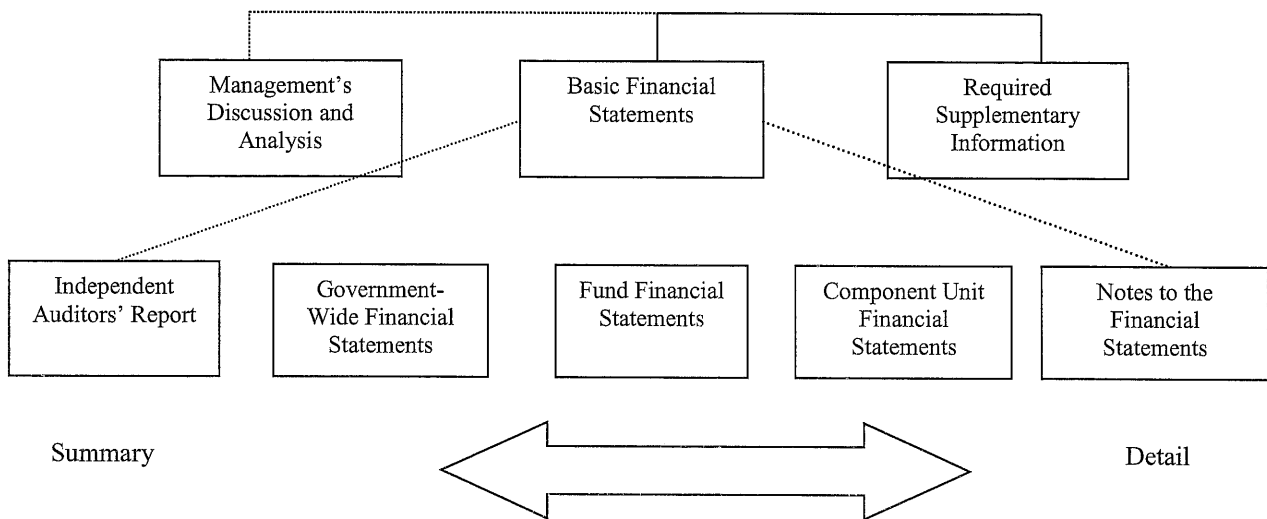
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2015

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Schulenburg, Texas (the "City") for the year ended September 30, 2015. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting method used by most private-sector companies. All of the current year revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

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 into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here including general government, public safety, public works, and community development. Interest payments on the City's debt are also reported here. 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 distribution, wastewater collection/treatment, electric services, garbage collection, and warehouse.

The government-wide financial statements include not only for the City itself (known as the primary government), but also a legally separate economic development corporation, the Schulenburg Economic Development Corporation, for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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

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 three categories of City funds are governmental, proprietary, and fiduciary.

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 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 four 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, which is always 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 SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise 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 distribution, wastewater collection/treatment, electric services, garbage collection, and warehouse. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains three fiduciary funds, the library trust fund, fire protection fund and perpetual care cemetery fund. The City's fiduciary activities are reported in separate statements of changes in fiduciary net position.

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 basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). RSI includes a budgetary comparison schedule for the general fund, schedules of changes in net pension liability and related ratios, and 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 by \$17,518,966 as of year end. The largest portion of the City's net position (77%) reflects its investments in capital assets (e.g., land, City hall, fleet equipment, streets, and 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. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	September 30, 2015			September 30, 2014		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Current and other assets	\$ 995,620	\$ 5,699,043	\$ 6,694,663	\$ 868,680	\$ 5,558,920	\$ 6,427,600
Capital assets, net	10,007,010	6,372,045	16,379,055	10,596,231	6,484,312	17,080,543
Total Assests	<u>11,002,630</u>	<u>12,071,088</u>	<u>23,073,718</u>	<u>11,464,911</u>	<u>12,043,232</u>	<u>23,508,143</u>
Deferred outflows - pensions	281,340	138,716	420,056	175,412	86,525	261,937
Deferred charge on refunding	30,590	-	30,590	34,414	-	34,414
Total Deffered Outflows of Resources	<u>311,930</u>	<u>138,716</u>	<u>450,646</u>	<u>209,826</u>	<u>86,525</u>	<u>296,351</u>
Long-term liabilities	1,576,983	1,392,032	2,969,015	1,239,508	1,335,324	2,574,832
Other liabilities	984,304	2,052,079	3,036,383	1,384,593	2,144,233	3,528,826
Total Liabilities	<u>2,561,287</u>	<u>3,444,111</u>	<u>6,005,398</u>	<u>2,624,101</u>	<u>3,479,557</u>	<u>6,103,658</u>
Net Position:						
Net investment in capital assets	9,080,630	4,334,388	13,415,018	9,532,180	4,310,012	13,842,192
Restricted	532,857	166,074	698,931	339,944	166,074	506,018
Unrestricted	(860,214)	4,265,231	3,405,017	(821,488)	4,001,064	3,179,576
Total Net Position	<u>\$ 8,753,273</u>	<u>\$ 8,765,693</u>	<u>\$ 17,518,966</u>	<u>\$ 9,050,636</u>	<u>\$ 8,477,150</u>	<u>\$ 17,527,786</u>

A portion of the primary government's net position, \$698,931, represents resources that are subject to external restriction on how they may be used. Restricted net position increased mainly due to increases in hotel/motel taxes and increased property taxes revenue. The business-type activities of the City continue to finance the governmental activities.

There was a decrease in the beginning net position of \$1,513,719 for the City due to the implementation of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. More detailed information about this restatement is presented in note III.F to the financial statements.

In the current fiscal year, GASB Statement Nos. 68 and 71 requires the City to recognize a net pension liability and deferred outflows/inflows of resources as discussed in note IV.C. to the financial statements. The net change in the pension liability increased by \$159,933 for the City during the current fiscal year. The net change in deferred outflows/inflows increased the net position by \$157,998 for the City.

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Statement of Activities:

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

	For the Year Ended September 30, 2015			For the Year Ended September 30, 2014		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 268,460	\$ 9,943,891	\$ 10,212,351	\$ 251,187	\$ 9,785,269	\$ 10,036,456
Operating grants and contributions	96,513	-	96,513	172,095	87,217	259,312
General revenues:						
Property taxes	412,039	-	412,039	405,077	-	405,077
Sales taxes	461,113	-	461,113	457,604	-	457,604
Franchise and occupancy taxes	340,957	-	340,957	369,193	-	369,193
Investment income	1,369	19,209	20,578	1,329	20,962	22,291
Other revenue	22,735	160,884	183,619	24,322	21,944	46,266
Total Revenues	<u>1,603,186</u>	<u>10,123,984</u>	<u>11,727,170</u>	<u>1,680,807</u>	<u>9,915,392</u>	<u>11,596,199</u>
Expenses						
General government	698,214	-	698,214	529,193	-	529,193
Public safety	1,078,038	-	1,078,038	1,271,060	-	1,271,060
Parks, recreation, and culture	800,487	-	800,487	747,845	-	747,845
Public works	1,150,105	-	1,150,105	1,479,504	-	1,479,504
Interest and fees on long-term debt	25,419	89,162	114,581	26,520	94,563	121,083
Utilities	-	7,894,565	7,894,565	-	7,822,463	7,822,463
Total Expenses	<u>3,752,263</u>	<u>7,983,727</u>	<u>11,735,990</u>	<u>4,054,122</u>	<u>7,917,026</u>	<u>11,971,148</u>
Increase(Decrease) in Net Position						
Before Transfers	(2,149,077)	2,140,257	(8,820)	(2,373,315)	1,998,366	(374,949)
Transfers in (out)	<u>1,851,714</u>	<u>(1,851,714)</u>	<u>-</u>	<u>2,037,895</u>	<u>(2,037,895)</u>	<u>-</u>
Change in Net Position	(297,363)	288,543	(8,820)	(335,420)	(39,529)	(374,949)
Beginning net position	<u>9,050,636</u>	<u>8,477,150</u>	<u>17,527,786</u>	<u>9,386,056</u>	<u>8,516,679</u>	<u>17,902,735</u>
Ending Net Position	<u>\$ 8,753,273</u>	<u>\$ 8,765,693</u>	<u>\$ 17,518,966</u>	<u>\$ 9,050,636</u>	<u>\$ 8,477,150</u>	<u>\$ 17,527,786</u>

Overall, primary government revenues increased by \$130,971 mainly due to an increase in charges for electricity services. Primary government expenses decreased by \$235,158 primarily due to decrease in expenses in governmental activities.

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

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 year.

The City's governmental funds reflect a combined fund balance of \$778,255, of which \$364,716 is nonspendable for loans receivable, \$180,931 is restricted for industrial development, \$346,257 is restricted for the development of tourism, and \$5,669 is restricted for grant activities.

There was an increase in the combined fund balance of \$144,565 from the prior year, primarily due to a transfer in from the utility fund.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was a deficit of \$119,318. This represents an increase of \$10,275 from 2014. The general fund's expenditures continued to be subsidized by the utility fund since general fund revenue is not sufficient to operate the general activities.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The budgeted general fund revenues were over the actual revenues by \$264,212 during the year. This negative variance is mainly due to receiving less grant revenue than anticipated. General fund expenditures were under the amended budget by \$813,888. This was mainly due to positive variances for sports complex in the parks and recreation department.

CAPITAL ASSETS

At the end of the year, the City's governmental and business – type activities had invested \$16,379,055 in a variety of capital assets (net of accumulated depreciation). This represents a net decrease of \$701,488. New major capital asset events during the current year include the following:

- Electrical meter software for a total of \$95,200
- Purchase of sludge box for a total of \$44,845
- Purchase of a garbage truck for a total of \$146,172
- Purchase of a mower for a total of \$20,136
- Purchase of a Chevrolet truck for a total of \$38,590

More detailed information on the City's capital assets can be found in note III.C.to the financial statements.

CITY OF SCHULENBURG, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

LONG-TERM DEBT

At the end of the current year, the City had total long-term debt of \$5,086,592. Long-term bonds outstanding account for \$2,874,000. Capital leases account for \$120,627.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The property tax rate for fiscal year 2016 stayed at \$0.1725 per \$100 assessed property value.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Tami Walker, City Secretary, City Hall, 535 N. Main Street, P.O. Box 8, Schulenburg, Texas 78956; telephone 979-743-4126.

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BASIC FINANCIAL STATEMENTS

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CITY OF SCHULENBURG, TEXAS

STATEMENT OF NET POSITION

September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	SEDC
<u>Assets</u>				
Cash and cash equivalents	\$ 505,262	\$ 2,199,068	\$ 2,704,330	\$ 592,997
Investments	-	1,695,000	1,695,000	-
Receivables (net of allowance for uncollectible)	134,983	1,224,964	1,359,947	-
Due from other governments	-	-	-	52,803
Due from primary government	-	-	-	25,946
Internal balances	(9,341)	9,341	-	-
Inventory	-	567,651	567,651	-
Industrial loans receivable	364,716	-	364,716	-
Other assets	-	3,019	3,019	-
Deferred charges	-	-	-	-
Capital assets:				
Non-depreciable	322,302	205,953	528,255	-
Net depreciable capital assets	9,684,708	6,166,092	15,850,800	644,495
Total Assets	11,002,630	12,071,088	23,073,718	1,316,241
<u>Deferred Outflows of Resources</u>				
Deferred outflows - pensions	281,340	138,716	420,056	-
Deferred charge on refunding	30,590	-	30,590	-
Total Deferred Outflows of Resources	311,930	138,716	450,646	-
<u>Liabilities</u>				
Accounts payable	195,424	396,342	591,766	-
Customer deposits payable	-	175,502	175,502	-
Payroll deductions payable	-	2,820	2,820	-
Due to state	-	23,011	23,011	-
Due to component unit	-	25,946	25,946	-
Due to others	-	46,247	46,247	-
Accrued interest	8,589	44,925	53,514	1,908
Noncurrent liabilities:				
Long-term liabilities due within one year	166,792	150,637	317,429	79,000
Long-term liabilities due in more than one year	817,512	1,901,442	2,718,954	683,000
Net pension liability	1,372,970	677,239	2,050,209	-
Total Liabilities	2,561,287	3,444,111	6,005,398	763,908
<u>Net Position</u>				
Net investment in capital assets	9,080,630	4,334,388	13,415,018	-
Restricted for:				
Special revenue	532,857	-	532,857	552,333
Debt service	-	166,074	166,074	-
Unrestricted	(860,214)	4,265,231	3,405,017	-
Total Net Position	\$ 8,753,273	\$ 8,765,693	\$ 17,518,966	\$ 552,333

See Notes to Financial Statements.

Net Revenue (Expense) and Changes in Net Position
Primary Government

Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (653,565)	\$ -	\$ (653,565)	\$ -
(857,859)	-	(857,859)	-
(724,405)	-	(724,405)	-
(1,126,042)	-	(1,126,042)	-
(25,419)	-	(25,419)	-
<u>(3,387,290)</u>	<u>-</u>	<u>(3,387,290)</u>	<u>-</u>
-	2,049,326	2,049,326	-
-	(89,162)	(89,162)	-
-	1,960,164	1,960,164	-
<u>(3,387,290)</u>	<u>1,960,164</u>	<u>(1,427,126)</u>	<u>-</u>
-	-	-	(127,012)
-	-	-	(8,378)
-	-	-	(135,390)
412,039	-	412,039	-
461,113	-	461,113	241,986
340,957	-	340,957	-
1,369	19,209	20,578	12,046
22,735	160,884	183,619	-
1,851,714	(1,851,714)	-	-
<u>3,089,927</u>	<u>(1,671,621)</u>	<u>1,418,306</u>	<u>254,032</u>
(297,363)	288,543	(8,820)	118,642
9,050,636	8,477,150	17,527,786	433,691
<u>\$ 8,753,273</u>	<u>\$ 8,765,693</u>	<u>\$ 17,518,966</u>	<u>\$ 552,333</u>

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CITY OF SCHULENBURG, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2015

	General	Nonmajor Governmental	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 1,400	\$ 503,862	\$ 505,262
Receivables, net	105,662	29,321	134,983
Loans receivable	-	364,716	364,716
Total Assets	\$ 107,062	\$ 897,899	\$ 1,004,961
<u>Liabilities</u>			
Accounts payable	\$ 195,098	\$ 326	\$ 195,424
Due to other funds	9,341	-	9,341
Total Liabilities	204,439	326	204,765
<u>Deferred Inflows of Resources</u>			
Unavailable revenue - property taxes	21,941	-	21,941
<u>Fund Balances (Deficit)</u>			
Nonspendable	-	364,716	364,716
Restricted for:			
Industrial development	-	180,931	180,931
Development of tourism	-	346,257	346,257
Grant activities	-	5,669	5,669
Unassigned (deficit)	(119,318)	-	(119,318)
Total Fund Balances	(119,318)	897,573	778,255
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 107,062	\$ 897,899	\$ 1,004,961

See Notes to Financial Statements

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CITY OF SCHULENBURG, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
For the Year Ended September 30, 2015

Total fund balances – total governmental funds \$ 778,255

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

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets – non-depreciable	322,302
Capital assets – net depreciable	9,684,708

Change in pension activity does not affect the fund balance on the statement of revenues, expenditures, and changes in fund balance for the governmental funds.

These changes in pension activity that affect the City's net position are as follows:

Net pension liability	(1,372,970)
Deferred outflows - pensions	281,340

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.

21,941

Some liabilities, including bonds payable, other post employment benefits, and compensated absences, are not reported as liabilities in the governmental funds.

Deferred charge on refunding	30,590
Accrued interest payable	(8,589)
Non-current liabilities due in one year	(166,792)
Non-current liabilities due in more than one year	<u>(817,512)</u>

Net Position of Governmental Activities \$ 8,753,273

See Notes to Financial Statements.

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CITY OF SCHULENBURG, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2015

	General	Nonmajor Governmental	Total Governmental Funds
Revenues			
Taxes	\$ 941,626	\$ 270,287	\$ 1,211,913
Licenses and permits	41,739	-	41,739
Charges for services	7,566	-	7,566
Intergovernmental revenue	88,265	-	88,265
Interest earnings	1,302	67	1,369
Miscellaneous	39,853	8,248	48,101
Total Revenues	1,322,388	278,602	1,600,990
Expenditures			
General government:			
General body	197,408	-	197,408
Office management	468,227	-	468,227
Building inspector	4,429	-	4,429
Public safety:			
Fire department	121,159	-	121,159
Police department	856,621	-	856,621
Municipal court	43,002	-	43,002
Parks, recreation, and culture:			
Sports complex	94,593	-	94,593
Parks and recreation	258,864	-	258,864
Swimming pool	25,169	-	25,169
Library	243,533	-	243,533
Civic center	29,609	-	29,609
Community center	6,390	-	6,390
City cemetery	43,813	-	43,813
Public works:			
Street department	605,401	-	605,401
Industrial development	-	15,000	15,000
Tourism	-	129,312	129,312
Blinn College	1,507	-	1,507
Debt service:			
Principal	141,495	-	141,495
Interest	22,607	-	22,607
Total Expenditures	3,163,827	144,312	3,308,139
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (1,841,439)	\$ 134,290	\$ (1,707,149)
Other Financing Sources (Uses)			
Transfers in	1,851,714	-	1,851,714
Total Other Financing Sources	1,851,714	-	1,851,714
Net Change in Fund Balances	10,275	134,290	144,565
Beginning fund balances	(129,593)	763,283	633,690
Ending Fund Balances	\$ (119,318)	\$ 897,573	\$ 778,255

See Notes to Financial Statements.

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

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

Net changes in fund balances - total governmental funds	\$	144,565
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated		
Capital outlay		108,871
Depreciation		(698,092)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Deferred revenue		2,196
The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Principal payment on debt		99,000
Amortization of deferred charges		(3,824)
Principal payment on capital leases		42,495
Deferred outflows - pensions		105,928
Net pension liability		(107,103)
Change in compensated absences		7,589
Accrued interest		<u>1,012</u>
Change in Net Position of Governmental Activities	\$	<u>(297,363)</u>

See Notes to Financial Statements.

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CITY OF SCHULENBURG, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2015

		Business-Type Activities
		Utility
<u>Assets</u>		
Cash and cash equivalents	\$	2,199,068
Investments		1,695,000
Receivables, net		1,224,964
Due from other governments		9,341
Inventory		567,651
Other assets		3,019
Total Current Assets		5,699,043
Noncurrent Assets		
Capital assets:		
Non-depreciable		205,953
Depreciable capital assets		21,479,790
Less: accumulated depreciation		(15,313,698)
Total Capital Assets, Net of Accumulated Depreciation		6,372,045
Total Noncurrent Assets		6,372,045
Total Assets		12,071,088
Deferred Outflows of Resources		
Deferred outflows - pensions		138,716
<u>Liabilities</u>		
Current Liabilities		
Accounts payable		396,342
Accrued interest payable		44,925
Payroll deduction payable		2,820
Customer deposits		175,502
Due to state		23,011
Due to other units		46,247
Due to component unit		25,946
Bonds payable - current		105,000
Capital leases payable		32,657
Compensated absences		12,980
Total Current Liabilities		865,430
Noncurrent liabilities		
Bonds payable		1,900,000
Compensated absences		1,442
Net pension liability		677,239
Total Noncurrent Liabilities		2,578,681
Total Liabilities		3,444,111
<u>Net Position</u>		
Net investment in capital assets		4,334,388
Restricted for debt service		166,074
Unrestricted		4,265,231
Total Net Position	\$	8,765,693

See Notes to Financial Statements.

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CITY OF SCHULENBURG, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

For the Year Ended September 30, 2015

	<u>Business-Type Activities</u>
	<u>Utility Enterprise</u>
<u>Operating Revenues</u>	
Charges for services	\$ 9,854,056
Penalties and interest	89,370
License and permits	465
Other revenue	160,884
Total Operating Revenues	<u>10,104,775</u>
<u>Operating Expenses</u>	
Payroll costs	759,044
Professional services	157,997
Contracted services	5,180,031
Supplies and materials	724,932
Recurring operating expense	656,740
Depreciation expense	409,626
Miscellaneous expense	6,195
Total Operating Expenses	<u>7,894,565</u>
Operating Income	<u>2,210,210</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	19,209
Interest expense	(89,162)
Total Nonoperating (Expenses)	<u>(69,953)</u>
Income Before Transfers	2,140,257
Transfers (out)	(1,851,714)
Change in Net Position	288,543
Beginning net position	8,477,150
Ending Net Position	<u>\$ 8,765,693</u>

See Notes to Financial Statements.

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CITY OF SCHULENBURG, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2015

	Business-Type Activities
	Utility Enterprise
<u>Cash Flows from Operating Activities</u>	
Cash received for services	\$ 10,114,216
Cash paid for salaries and wages	(761,616)
Inventory decreased	1,486
Cash payments for inventory	(6,856,710)
Net Cash Provided by Operating Activities	2,497,376
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfer to other funds	(1,851,714)
Net Cash (Used) by Noncapital Financing Activities	(1,851,714)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(297,357)
Principal paid on capital leases	(31,643)
Principal paid on revenue bonds	(105,000)
Interest paid on revenue bonds and capital leases	(89,162)
Net Cash (Used) by Capital and Related Financing Activities	(523,162)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	19,209
Net Cash Provided by Investing Activities	19,209
Net Increase in Cash and Cash Equivalents	141,709
Beginning cash and cash equivalents	2,057,359
Ending Cash and Cash Equivalents	\$ 2,199,068
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 2,210,210
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	409,626
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	9,441
Deferred outflows	(52,193)
Due from other governments	(9,341)
Inventory	1,486
Customer deposits	877
Accounts payable and accrued liabilities	(125,475)
Compensated absences	(3,210)
Net pension liability	52,831
Amount due to state	3,124
Net Cash Provided by Operating Activities	\$ 2,497,376

See Notes to Financial Statements.

CITY OF SCHULENBURG, TEXAS

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

September 30, 2015

	<u>Library Trust</u>	<u>Fire Protection</u>	<u>Perpetual Care Cemetery Trust</u>	<u>Total Fiduciary Funds</u>
Assets:				
Cash and cash equivalents	\$ 254	\$ 226,893	\$ 43,453	\$ 270,600
Investments	20,000	-	215,000	235,000
Accounts receivable	-	2,981	-	2,981
Due from other units	-	42,266	3,981	46,247
Total Assets	<u>\$ 20,254</u>	<u>\$ 272,140</u>	<u>\$ 262,434</u>	<u>\$ 554,828</u>
Net Position:				
Held in trust	<u>\$ 20,254</u>	<u>\$ 272,140</u>	<u>\$ 262,434</u>	<u>\$ 554,828</u>
Total Net Position	<u>\$ 20,254</u>	<u>\$ 272,140</u>	<u>\$ 262,434</u>	<u>\$ 554,828</u>

See Notes to Financial Statements.

CITY OF SCHULENBURG, TEXAS

STATEMENT OF CHANGES IN NET POSITION

FIDUCIARY FUNDS

For the Year Ended September 30, 2015

	<u>Library Trust</u>	<u>Fire Protection</u>	<u>Perpetual Care Cemetery Trust</u>	<u>Total Fiduciary Funds</u>
<u>Additions</u>				
Public donations	\$ -	\$ 25,314	\$ 2,268	\$ 27,582
Investment earnings:				
Interest earned	-	7	2,461	2,468
Total Revenues	<u>-</u>	<u>25,321</u>	<u>4,729</u>	<u>30,050</u>
Change in Net Position	-	25,321	4,729	30,050
Beginning net position	<u>20,254</u>	<u>246,819</u>	<u>257,705</u>	<u>524,778</u>
Ending Net Position	<u>\$ 20,254</u>	<u>\$ 272,140</u>	<u>\$ 262,434</u>	<u>\$ 554,828</u>

See Notes to Financial Statements.

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CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Schulenburg, Texas (the "City") was incorporated under the laws of the State of Texas in 1875. The City has operated under the Mayor-Alderman form of government.

The City provides the following services: public safety, public works, community development, water and sewer services, general administration, garbage collection, electric services, and warehouse storage.

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

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

Discretely Presented Component Unit

The Schulenburg Economic Development Corporation (SEDC) was created to levy and account for the collection of a sales and use tax at the rate of one half of the City's sales tax rate for the purpose of financing economic development projects that provide economic benefit and diversify the economic base of the community. City Council appoints all members of the governing board and approves any debt issued by the SEDC.

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 of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary*

CITY OF SCHULENBURG, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

government is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following governmental funds:

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

The *special revenue funds* are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds are considered nonmajor funds for reporting purposes.

The City reports the following enterprise fund:

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

CITY OF SCHULENBURG, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Additionally, the City reports the following fund type:

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City maintains three fiduciary funds, the library trust fund, fire protection fund and perpetual care cemetery fund.

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, proprietary fund, and fiduciary 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 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.

CITY OF SCHULENBURG, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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 types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and '2a7-like pools.' 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. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

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. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government and State of Texas or their agencies or instrumentalities
- Fully collateralized certificates of deposit
- Mutual funds of specific type
- Investment pools

3. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (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" in the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF SCHULENBURG, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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

All trade receivables are shown net of an allowance for uncollectibles.

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

5. Capital Assets

Capital assets, including 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 government as assets with an initial and an estimated useful life in excess of eight 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.

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>Estimated Useful Life</u>
Furniture and equipment	8 to 10 years
Vehicles	8 to 10 years
Infrastructure	15 to 30 years
Utility system	25 years
Buildings and improvements	25 to 50 years

6. 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 four items that qualify for reporting in this category on the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources are recognized for the difference

CITY OF SCHULENBURG, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. Another deferral is 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. 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 a reduction to the net pension liability during the measurement period in which the contributions were made.

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 no items that qualify for reporting in this category in the government-wide Statement of Net Position. 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. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

7. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation time. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

8. 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 or business-type activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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.

The property tax rate is allocated each year to the general fund. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the general fund.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

Assets acquired under the terms of a capital lease are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

9. 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.

10. 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.

11. 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 an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) 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

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

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.

12. 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.

13. Pensions

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

3. 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.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the charter is the object and purpose stated in the approved budget. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year.

A. Excess of Expenditures over Appropriations

General fund	
General government	
Office management	\$ 72,227
Parks, recreation, and culture:	
Parks and recreation	\$ 120,264
Swimming pool	\$ 569
Community center	\$ 6,390
City cemetery	\$ 688
Debt services	
Interest	\$ 3,942
Principal	\$ 42,495

B. Deficit Fund Balance

The general fund had a deficit fund balance of \$119,318 as of September 30, 2015.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2015, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
TexPool	\$ 168,890	0.00
Certificates of deposit	1,931,178	1.04
Total Investments	\$ 2,100,068	
Portfolio Weighted Average Maturity		0.96

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Credit risk. The City's investment policy limits investments in money market mutual funds rated as to investment quality not less than 'AAA' by at least one nationally recognized rating service. As of September 30, 2015, the City's investment in TexPool was rated 'AAAm' by Standard & Poor's. The City's investment policy also requires repurchase agreements to be fully collateralized as described in the Public Funds Investment Act (the "Act"). The purchased securities shall have a minimum market value, including accrued interest, of 102 percent of the dollar value of the

CITY OF SCHULENBURG, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

transaction. The City’s investment in U.S. agency securities held as of September 30, 2015 were rated not less than ‘AA+’ by Standard & Poor’s.

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. As of September 30, 2015, the bank balances were \$5,027,347. The market values of pledged securities were \$5,143,868.

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 rate 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.

B. Receivables

The following comprises receivable balances at year end:

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Enterprise</u>
Property taxes	\$ 27,852	\$ -	\$ -
Sales taxes	82,802	-	-
Hotel taxes	-	29,321	-
Other taxes	918	-	-
Utilities	-	-	1,224,964
Allowance	(5,910)	-	-
	<u>\$ 105,662</u>	<u>\$ 29,321</u>	<u>\$ 1,224,964</u>

The loan receivable of \$364,716 is being utilized for the purchase of land, machinery, equipment, and working capital expenditures. The loans are made in exchange for the creation of full-time job positions held by low/moderate income persons through the Texas Department of Commerce. There are currently five outstanding loans that have terms varying from five to 20 years. The amount not expected to be collected within one year is \$304,254.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

C. Capital Assets

A summary of changes in capital assets for governmental activities at year end is as follows:

	Beginning Balance	Increases	Ending Balance
Governmental Activities:			
Capital assets not being depreciated:			
Land	\$ 322,302	\$ -	\$ 322,302
Total capital assets not being depreciated	322,302	-	322,302
Other capital assets:			
Building	6,213,297	50,145	6,263,442
Machinery and equipment	631,494	20,136	651,630
Vehicles	2,305,383	38,590	2,343,973
Infrastructure	12,825,072	-	12,825,072
Total other capital assets	21,975,246	108,871	22,084,117
Less accumulated depreciation for:			
Building	(3,233,050)	(129,257)	(3,362,307)
Machinery and equipment	(496,339)	(29,420)	(525,759)
Vehicles	(1,780,958)	(111,913)	(1,892,871)
Infrastructure	(6,190,970)	(427,502)	(6,618,472)
Total accumulated depreciation	(11,701,317)	(698,092)	(12,399,409)
Other capital assets, net	10,273,929	(589,221)	9,684,708
Governmental Activities Capital Assets, Net	\$ 10,596,231	\$ (589,221)	10,007,010
		Less associated debt	(956,970)
		Plus deferred charge on refunding	30,590
			\$ 9,080,630

CITY OF SCHULENBURG, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Depreciation was charged to governmental functions as follows:

General government		
General body	\$	28,836
Building inspector		1,521
Public safety		
Fire department		62,311
Police department		34,380
Parks, recreation, and culture:		
Sports complex		32,723
Parks and recreation		70,306
Swimming pool		273
Library		5,080
Civic center		9,848
Community center		2,203
City cemetery		475
Public works:		
Street department		450,136
Total Governmental-Type Activities Depreciation Expense	\$	698,092

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

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

	Beginning Balance	Increases	Ending Balance
Business-Type Activities:			
Capital assets not being depreciated:			
Land	\$ 205,953	\$ -	\$ 205,953
Total capital assets not being depreciated	205,953	-	205,953
Other capital assets:			
Building	1,046,944	-	1,046,944
Machinery and equipment	2,304,557	146,172	2,450,729
Furniture and fixtures	133,819	-	133,819
Utility system	17,697,113	151,185	17,848,298
Total other capital assets	21,182,433	297,357	21,479,790
Less accumulated depreciation for:			
Building	(526,517)	(30,241)	(556,758)
Machinery and equipment	(1,786,807)	(111,806)	(1,898,613)
Furniture and fixtures	(133,318)	(246)	(133,564)
Utility system	(12,457,432)	(267,331)	(12,724,763)
Total accumulated depreciation	(14,904,074)	(409,624)	(15,313,698)
Other capital assets, net	6,278,359	(112,267)	6,166,092
Business-Type Activities Capital Assets, Net	\$ 6,484,312	\$ (112,267)	6,372,045
		Less associated debt	(2,037,657)
		Net Investment in Capital Assets	\$ 4,334,388

Depreciation was charged to business-type functions as follows:

Electric	\$ 90,444
Water	95,604
Sewer	172,882
Warehouse	40,823
Garbage	9,871
Total Business-Type Activities Depreciation Expense	\$ 409,624

CITY OF SCHULENBURG, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

The following is a summary of changes in capital assets for component unit activities for the year:

Component Unit Activities:	Beginning Balance	Increases	Ending Balance
Capital assets being depreciated:			
EDC Blinn College	\$ 1,288,990	\$ -	\$ 1,288,990
Less accumulated depreciation for:			
EDC Blinn College	(572,885)	(71,610)	(644,495)
Component Unit Capital Assets, Net	\$ 716,105	\$ (71,610)	\$ 644,495

D. Long-Term Debt

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

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
General obligation refunding					
bonds	\$ 968,000	\$ -	\$ (99,000)	\$ 869,000 *	\$ 99,000
Other liabilities:					
Compensated absences	34,923	45,522	(53,111)	27,334	24,601
Capital leases	130,465	-	(42,495)	87,970 *	43,191
Net pension liability	1,265,867	107,103	-	1,372,970	-
Total Governmental Activities	\$ 2,399,255	\$ 152,625	\$ (194,606)	\$ 2,357,274	\$ 166,792
Long-term Liabilities Due In More Than One Year				\$ 2,190,482	
* Debt associated with governmental capital assets				\$ 956,970	

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Bonds payable:					
Certificates of obligation	\$ 2,110,000	\$ -	\$ (105,000)	\$ 2,005,000 **	\$ 105,000
Other liabilities:					
Compensated absences	48,930	5,989	(40,497)	14,422	12,980
Capital leases	64,300	-	(31,643)	32,657 **	32,657
Net pension liability	624,408	52,831	-	677,239	-
Total Business-Type Activities	\$ 2,847,638	\$ 58,820	\$ (177,140)	\$ 2,729,318	\$ 150,637
Long-term Liabilities Due In More Than One Year				\$ 2,578,681	
** Debt associated with business-type capital assets				\$ 2,037,657	
Component Unit Activities:					
Sales tax revenue bonds	\$ 837,000	\$ -	\$ (75,000)	\$ 762,000	\$ 79,000
Total Component Unit Activities	\$ 837,000	\$ -	\$ (75,000)	\$ 762,000	\$ 79,000
Long-term Liabilities Due In More Than One Year				\$ 683,000	

CITY OF SCHULENBURG, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
Governmental		
General Obligation Refunding Bonds Series 2012	1.93%	\$ 869,000
Total Governmental Activities Long - Term Debt		\$ 869,000
Fire truck lease, 2014	3.25%	\$ 43,192
Fire truck lease, 2010	4.54%	44,778
Total Governmental Capital Leases		\$ 87,970
Business-Type		
Tax and Combined Utility System Surplus Revenue Certificates of Obligation Series 2011	4.25%	\$ 2,005,000
Total Business-Type Activities Long -Term Debt		\$ 2,005,000
Caterpillar lease	3.20%	\$ 32,657
Total Business Capital leases		\$ 32,657
Component Unit		
Sales Tax Revenue Refunding Bonds, Series 2012	1.98%	\$ 762,000
Total Component Lont - term Debt		\$ 762,000

The City is not obligated in any manner for special assessment debt. Capital assets acquired under current capital lease obligations totaled \$276,563 less accumulated depreciation of \$82,376, net \$194,187.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ending Sept. 30	Governmental Activities Long-Term Debt				
	General Obligation		Capital Leases		Total
	Principal	Interest	Principal	Interest	
2016	\$ 102,000	\$ 16,772	\$ 43,192	\$ 3,229	\$ 165,193
2017	104,000	14,803	44,778	1,648	165,229
2018	107,000	12,796	-	-	119,796
2019	105,000	10,730	-	-	115,730
2020	107,000	8,704	-	-	115,704
2021-2023	344,000	13,452	-	-	357,452
Total	\$ 869,000	\$ 77,257	\$ 87,970	\$ 4,877	\$ 1,039,104

Year Ending Sept. 30	Business-Type Activities Long-Term Debt				
	Certificates of Obligation		Capital Leases		Total
	Principal	Interest	Principal	Interest	
2016	\$ 105,000	\$ 87,444	\$ 32,657	\$ 1,045	\$ 226,146
2017	110,000	82,982	-	-	192,982
2018	120,000	78,413	-	-	198,413
2019	125,000	73,525	-	-	198,525
2020	125,000	68,319	-	-	193,319
2021-2025	730,000	256,914	-	-	986,914
2026-2029	690,000	92,969	-	-	782,969
Total	\$ 2,005,000	\$ 740,566	\$ 32,657	\$ 1,045	\$ 2,779,268

Year Ending Sept. 30	Component Unit Long-Term Debt		
	Sales Tax Revenue Bonds		
	Principal	Interest	Total
2016	\$ 79,000	\$ 15,088	\$ 94,088
2017	82,000	13,523	95,523
2018	80,000	11,900	91,900
2019	83,000	10,316	93,316
2020	86,000	8,672	94,672
2021-2024	352,000	17,503	369,503
Total	\$ 762,000	\$ 77,002	\$ 839,002

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

performed, or are not performed correctly, it could result in a substantial liability to the City. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

E. Interfund Transactions

Transfers between the governmental funds during the year were as follows:

Transfer Out	Transfer In	Amounts
Enterprise	General	\$ 1,851,714

F. Restatement of Fund Balance/Net Position

The City implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, the City has restated beginning net position to account for the net pension liability as of the measurement date, December 31, 2014. In addition, the City has restated beginning net position to record a deferred outflow for contributions made to the pension plan between the initial measurement date and the end of the prior fiscal year, September 30, 2014.

Beginning net position was restated as follows:

	Governmental Activities	Business-Type Activities
Prior year ending net position as reported	\$ 10,065,298	\$ 8,976,207
Deferred outflows - contributions after measurement date	175,412	86,525
Net pension liability	(1,190,074)	(585,582)
Restated beginning net position	\$ 9,050,636	\$ 8,477,150

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 Pools (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 which exceeded coverage amounts for the past three 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

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

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 Plans

Texas Municipal Retirement System

Plan Description

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

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

Benefits Provided

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

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

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:

	2015	2014
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/ yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	23
Inactive employees entitled to, but not yet receiving benefits	13
Active employees	36
Total	72

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 seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 21.26 percent and 21.08 percent in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2015 were \$323,632 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability used to calculate the NPL was determined by an actuarial valuation as of that date.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

Actuarial Assumptions

The TPL in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0%, 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 Table, 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 Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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.

The long-term expected rate of return on pension plan investments is seven percent. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

Discount Rate

The discount rate used to measure the TPL was seven 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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 263,056	\$ -	\$ 263,056
Interest	820,921	-	820,921
Change of benefit terms	-	-	-
Difference between expected and actual experience	115,917	-	115,917
Changes of assumptions	-	-	-
Contributions - employer	-	354,508	(354,508)
Contributions - employee	-	117,852	(117,852)
Net investment income	-	574,088	(574,088)
Benefit payments, including refunds of employee contributions	(659,072)	(659,072)	-
Administrative expense	-	(5,994)	5,994
Other changes	-	(493)	493
Net Changes	540,822	380,889	159,933
Balance at December 31, 2013	11,925,457	10,035,181	1,890,276
Balance at December 31, 2014	\$ 12,466,279	\$ 10,416,070	\$ 2,050,209

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of seven percent, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	\$ 3,788,493	\$ 2,050,209	\$ 626,078

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.tmrs.com.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

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

For the fiscal year ended September 30, 2015, the City recognized net pension expense of \$322,803.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual economic experience	\$ 88,938
Difference between projected and actual investment earnings	102,700
Contributions subsequent to the measurement date	228,479
Total	\$ 420,117

\$228,479 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2015. 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
2016	\$ 52,654
2017	52,654
2018	52,654
2019	33,676
Total	\$ 191,638

D. Other Post Employment Benefits

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 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. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2015, the City offered the supplemental death benefit to both active and retired employees.

CITY OF SCHULENBURG, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2015

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 the fiscal years ended 2015, 2014, and 2013 were \$767, \$838, and \$744, respectively, which equaled the required contribution. The City's contribution rates for the past three years are shown below:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual Req. Contrib. (Rate)	0.05%	0.05%	0.05%
Actual Contribution Made	0.05%	0.05%	0.05%
Percentage of ARC Contrib.	100.0%	100.0%	100.0%

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended September 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 1,179,300	\$ 1,179,300	\$ 941,626	\$ (237,674)
Fines and court costs	135,030	135,030	# 202,037	67,007
Licenses and permits	5,000	5,000	41,739	36,739
Charges for services and merchandise	7,700	7,700	7,566	(134)
Donations and grant revenue	233,320	233,320	88,265	(145,055)
Interest earnings	1,600	1,600	1,302	(298)
Miscellaneous	24,650	24,650	39,853	15,203
Total Revenues	<u>1,586,600</u>	<u>1,586,600</u>	<u>1,322,388</u>	<u>(264,212)</u>
Expenditures				
General government:				
General body	225,650	225,650	197,408	28,242
Office management	366,000	396,000	468,227	(72,227) *
Building inspector	25,000	25,000	4,429	20,571
Public safety:				
Fire department	208,130	208,130	121,159	86,971
Police department	910,927	910,927	856,621	54,306
Municipal court	71,400	71,400	43,002	28,398
Parks, recreation, and culture:				
Sports complex	234,330	234,330	94,593	139,737
Parks and recreation	138,600	138,600	258,864	(120,264) *
Swimming pool	24,600	24,600	25,169	(569) *
Library	258,170	258,170	243,533	14,637
Civic center	37,100	37,100	29,609	7,491
Community center	-	-	6,390	(6,390) *
City cemetery	33,125	43,125	43,813	(688) *
Public works:				
Street department	1,054,200	1,054,200	605,401	448,799
Blinn College	232,800	232,800	1,507	231,293
Debt service:				
Interest	18,683	18,683	22,607	(3,924) *
Principal	99,000	99,000	141,495	(42,495) *
Total Expenditures	<u>3,937,715</u>	<u>3,977,715</u>	<u>3,163,827</u>	<u>813,888</u>
(Deficiency) of Revenue	<u>(2,351,115)</u>	<u>(2,391,115)</u>	<u>(1,841,439)</u>	<u>549,676</u>
Other Financing Sources (Uses)				
Transfers in	-	-	1,851,714	1,851,714
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>1,851,714</u>	<u>1,851,714</u>
Net Change in Fund Balance	<u>\$ (2,351,115)</u>	<u>\$ (2,391,115)</u>	<u>\$ 10,275</u>	<u>\$ 2,401,390</u>
Beginning fund balance			(129,593)	
Ending Fund Balance			<u>\$ (119,318)</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Expenditures exceeded appropriations at the legal level of control.

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CITY OF SCHULENBURG, TEXAS
SCHEDULE OF IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2015

	Measurement Year
	2014*
Total Pension Liability	
Service cost	\$ 263,056
Interest (on the total pension liability)	820,921
Difference between expected and actual experience	115,917
Benefit payments, including refunds of employee contributions	(659,072)
Net Change in Total Pension Liability	540,822
Beginning total pension liability	11,925,457
Ending Total Pension Liability	\$ 12,466,279
Plan Fiduciary Net Position	
Contributions - employer	\$ 354,508
Contributions - employee	117,852
Net investment income	574,088
Benefit payments, including refunds of employee contributions	(659,072)
Administrative expense	(5,994)
Other	(493)
Net Change in Plan Fiduciary Net Position	380,889
Beginning plan fiduciary net position	10,035,181
Ending Plan Fiduciary Net Position	\$ 10,416,070
Net Pension Liability	\$ 2,050,209
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	
Percentage of Total Pension Liability	83.55%
Covered Employee Payroll	\$ 1,683,601
Net Pension Liability as a Percentage of Covered Employee Payroll	
of Covered Employee Payroll	121.78%

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

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CITY OF SCHULENBURG, TEXAS

SCHEDULE OF CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2015

	<u>Fiscal Year</u>
	<u>2015*</u>
Actuarially determined contribution	\$ 323,632
Contributions in relation to the actuarially determined contribution	<u>323,632</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Covered employee payroll	<u>\$ 1,535,066</u>
employee payroll	21.08%

Actuarially determined contribution rates are calculated as of December 31 and 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	29 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	3.0%
Salary increases	3.50% to 12.0% including inflation
Investment rate of return	7.0%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	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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COMBINING STATEMENTS

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CITY OF SCHULENBURG, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2015

	Industrial Development Escrow	Hotel/Motel Occupancy Tax	Grant	Total Nonmajor Governmental Funds
Cash and cash equivalents	\$ 180,931	\$ 317,262	\$ 5,669	\$ 503,862
Receivables, net	-	29,321	-	29,321
Loans receivable	364,716	-	-	364,716
Total Assets	\$ 545,647	\$ 346,583	\$ 5,669	\$ 897,899
 <u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 326	\$ -	\$ 326
Total Liabilities	-	326	-	326
 <u>Fund Balances</u>				
Nonspendable	364,716	-	-	364,716
Restricted for:				
Industrial development	180,931	-	-	180,931
Development of tourism	-	346,257	-	346,257
Grant activities	-	-	5,669	5,669
Total Fund Balances	545,647	346,257	5,669	897,573
Total Liabilities and Fund Balances	\$ 545,647	\$ 346,583	\$ 5,669	\$ 897,899

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

	<u>Industrial Development Escrow</u>	<u>Hotel/Motel Occupancy Tax</u>	<u>Grant</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues				
Hotel occupancy tax	\$ -	\$ 270,287	\$ -	\$ 270,287
Interests earnings	67	-	-	67
Miscellaneous	8,248	-	-	8,248
Total Revenues	<u>8,315</u>	<u>270,287</u>	<u>-</u>	<u>278,602</u>
Expenditures				
Public works:				
Tourism	-	129,312	-	129,312
Industrial development	15,000	-	-	15,000
Total Expenditures	<u>15,000</u>	<u>129,312</u>	<u>-</u>	<u>144,312</u>
Net Change in Fund Balances	<u>(6,685)</u>	<u>140,975</u>	<u>-</u>	<u>134,290</u>
Beginning fund balances	<u>552,332</u>	<u>205,282</u>	<u>5,669</u>	<u>763,283</u>
Ending Fund Balances	<u>\$ 545,647</u>	<u>\$ 346,257</u>	<u>\$ 5,669</u>	<u>\$ 897,573</u>

CITY OF SCHULENBURG, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

For the Year Ended September 30, 2015

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Garbage Utility</u>
<u>Operating Revenues</u>				
License and permits	\$ 125	\$ 340	\$ -	\$ -
Sales and services rendered	7,584,571	767,982	753,051	748,452
Customer penalties and connection charges	58,531	14,179	10,684	5,976
Other revenue	157,646	-	540	2,655
Total Operating Revenues	<u>7,800,873</u>	<u>782,501</u>	<u>764,275</u>	<u>757,083</u>
<u>Operating Expenses</u>				
Payroll costs	212,533	130,495	148,683	204,962
Professional services	22,862	11,161	123,974	-
Contracted services	4,921,454	68,498	152,698	35,713
Supplies and materials	357,841	73,379	168,142	99,429
Recurring operating expense	41,317	80,598	159,759	351,751
Depreciation expense	90,444	95,604	172,884	9,871
Miscellaneous expense	2,195	-	4,000	-
Total Operating Expenses	<u>5,648,646</u>	<u>459,735</u>	<u>930,140</u>	<u>701,726</u>
Operating Income (Loss)	<u>2,152,227</u>	<u>322,766</u>	<u>(165,865)</u>	<u>55,357</u>
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	15,049	-	-	4,160
Interest expense	-	-	(89,162)	-
Total Nonoperating Revenues (Expenses)	<u>15,049</u>	<u>-</u>	<u>(89,162)</u>	<u>4,160</u>
Income (Loss) Before Transfers	2,167,276	322,766	(255,027)	59,517
Transfers (out)	(1,851,714)	-	-	-
Change in Net Position	<u>\$ 315,562</u>	<u>\$ 322,766</u>	<u>\$ (255,027)</u>	<u>\$ 59,517</u>
Beginning net position	14,847,536	(68,709)	(7,896,148)	(3,766)
Ending Net Position	<u>\$ 15,163,098</u>	<u>\$ 254,057</u>	<u>\$ (8,151,175)</u>	<u>\$ 55,751</u>

See Notes to Financial Statements.

<u>Warehouse Department</u>	<u>Total Funds</u>
\$ -	\$ 465
-	9,854,056
-	89,370
43	160,884
<u>43</u>	<u>10,104,775</u>
62,371	759,044
-	157,997
1,668	5,180,031
26,141	724,932
23,315	656,740
40,823	409,626
-	6,195
<u>154,318</u>	<u>7,894,565</u>
<u>(154,275)</u>	<u>2,210,210</u>
-	19,209
-	(89,162)
<u>-</u>	<u>(69,953)</u>
(154,275)	2,140,257
<u>-</u>	<u>(1,851,714)</u>
<u>\$ (154,275)</u>	<u>\$ 288,543</u>
<u>1,804,132</u>	<u>8,683,045</u>
<u>\$ 1,649,857</u>	<u>\$ 8,971,588</u>

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