

**CITY OF COLEMAN,
TEXAS**

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S
REPORT

SEPTEMBER 30, 2016

Roberts & McGee, CPA
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CITY OF COLEMAN, TEXAS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Coleman, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Coleman, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coleman, Texas, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8 and 36-39 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 of Coleman, Texas' basic financial statements. The other supplementary schedules on pages 40-42 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary 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 other supplementary schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Roberts + McGee, CPA
Roberts & McGee, CPA

Abilene, Texas,
July 17, 2017

**THE CITY OF COLEMAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

As management of the City of Coleman, we offer readers of the City of Coleman, Texas' financial statements this narrative overview and analysis of the financial activities of the City of Coleman, Texas for the fiscal year ended September 30, 2016.

Financial Highlights

Government-Wide Financial Statements

- The assets of the City of Coleman exceeded its liabilities at the close of the most recent fiscal year by \$10,602,201 (*net position*). Of this amount, \$2,528,872 (*unrestricted*) may be used to meet the government's ongoing obligations to citizens. \$7,586,293 of the City's equity is invested in capital assets, net of related debt; and \$487,036 of the City's equity is restricted.
- The City's total assets decreased by \$977,088 during the 2016 fiscal year.
- The net position (*equity*) of the City decreased by \$57,308 during the 2016 fiscal year prior to the application of the prior period adjustment.

Fund Financial Statements

- As of the close of the current fiscal year, the City of Coleman's General Fund reported an ending unassigned fund balance of \$673,421. This fund balance reflects an increase of \$273,226 for the current year. \$1,448,717 was transferred during the year to the General Fund from the Proprietary Funds.
- In the Utility Fund, the net position reflects \$2,779,132 of unrestricted equity, which is a decrease of \$567,771 for the current year.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

The government-wide financial statements reflect functions of the City of Coleman that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City of Coleman include general administration, public safety, public service, streets, culture and recreation, health and inspection, cemetery, and environmental.

The government-wide financial statements can be found on pages 9-10 of this report.

**THE CITY OF COLEMAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

Fund Financial Statements

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

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

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

The City of Coleman maintains two governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund, and the law enforcement fund, which is considered to be a non-major fund.

The governmental fund financial statements can be found on pages 11-15 of this report.

The City of Coleman adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget on page 36.

Proprietary funds. When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements, but it provides more detail and additional information, such as cash flows, for the proprietary funds. The proprietary fund financial statements can be found on pages 16-18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-35 of this report.

Other information. Other schedules in connection with the proprietary funds and the component units are presented immediately following the required supplementary information. These schedules can be found on pages 40-42 of this report.

**THE CITY OF COLEMAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Coleman, assets exceeded liabilities by \$10,602,201 at the close of the most recent fiscal year.

\$7,586,293 of the City of Coleman's net position (72 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), net of related debt. The City of Coleman uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

The City of Coleman's Net Position

	Governmental Activities	
	2016	2015
Current assets	\$ 915,654	\$ 726,075
Capital assets	1,099,266	984,743
Total Assets	2,014,920	1,710,818
Deferred outflows of resources - pension	630,562	229,588
Total assets and deferred outflows of resource:	2,645,482	1,940,406
Current liabilities	214,610	290,054
Long-term liabilities	1,730,242	1,408,851
Total Liabilities	1,944,852	1,698,905
Deferred inflows of resources - pension	266,032	57,186
Total liabilities and deferred inflows of resource:	2,210,884	1,756,091
Net investment in capital assets	855,094	938,888
Restricted	8,095	6,879
Unrestricted	(428,591)	(761,452)
Total Net Position	\$ 434,598	\$ 184,315
	Business-type Activities	
	2016	2015
Current assets	\$ 4,098,940	\$ 4,637,534
Capital assets	13,394,106	14,136,702
Total Assets	17,493,046	18,774,236
Deferred outflows of resources - pension	544,106	198,109
Total assets and deferred outflows of resource:	18,037,152	18,972,345
Current liabilities	1,454,084	1,776,188
Long-term liabilities	6,185,908	6,628,063
Total Liabilities	7,639,992	8,404,251
Deferred inflows of resources - pension	229,557	49,345
Total liabilities and deferred inflows of resource:	7,869,549	8,453,596
Net investment in capital assets	6,731,199	6,830,833
Restricted	478,941	149,673
Unrestricted	2,957,463	3,538,243
Total Net Position	\$ 10,167,603	\$ 10,518,749

**THE CITY OF COLEMAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

The City of Coleman's Changes in Net Position

Revenues:	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
Program Revenues:				
Charges for services	\$ 277,807	\$ 318,038	\$ 8,780,613	\$ 9,252,242
Capital grants & contributions			34,925	256,668
Operating grants & contributions	27,431	21,002		
General Revenues				
Property taxes	578,851	561,480		
Sales and use taxes	412,667	431,321		
Franchise taxes	85,383	94,880	31,263	35,266
Occupancy tax	43,194	42,892		
Investment earnings	1,555	1,771	6,283	2,354
Miscellaneous income	408,211	568,338	71,382	143,162
Transfers	1,448,717	811,849	(1,448,717)	(811,849)
Total Revenues	3,283,816	2,851,571	7,475,749	8,877,843
Expenses				
General administration	295,859	301,022		
Public safety	1,488,155	1,432,884		
Streets	519,371	496,909		
Public service	148,724	159,181		
Culture and recreation	356,721	351,861		
Health and inspection	9,655	1,670		
Cemetery	160,015	146,030		
Environmental	54,207	50,126		
Utility			6,770,178	7,637,360
Municipal airport			279,646	305,950
Sanitation			733,516	789,333
Interest	826	2,971		
Other				
Total expenses	3,033,533	2,942,654	7,783,340	8,732,643
Change in net position	250,283	(91,083)	(307,591)	145,200
Beginning Net Position	184,315	1,497,869	10,518,749	11,494,614
Prior period adjustments		(1,222,471)	(43,555)	(1,121,065)
Ending Net Position	\$ 434,598	\$ 184,315	\$ 10,167,603	\$ 10,518,749

FINANCIAL ANALYSIS OF THE GOVERNMENTS FUNDS

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

Governmental funds. The focus of the City of Coleman'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 of Coleman's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Coleman's governmental General Fund reported an ending fund balance of \$678,164. Of this amount, \$673,421 is unassigned and available for spending at the City's discretion. This represents approximately 2.5 months of operating equity based on 2016 current expenditures.

**THE CITY OF COLEMAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

Fund Budgetary Highlights

The original budget for the General Fund reflected a balanced budget. The budget was amended in November 2016 to reflect an excess revenue over expenditures of \$444,572. The actual expenditures were \$36,912 more than the amended budgeted amounts, and actual revenues were \$125,997 less than was budgeted.

The original budget for the Utility Fund reflected a balanced budget on a modified accrual basis. The budget was amended in November 2016 to reflect an accrual basis deficit revenue over expenditures of \$530,163. The actual operating expenses were \$395,922 less than the amended budgeted amounts, and actual revenues were \$14,498 less than was budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The City of Coleman's investment in capital assets for its governmental activities amounted to \$1,099,266 (net of accumulated depreciation), and the investment in capital assets for its business-type activities amounted to \$12,227,215 (net of accumulated depreciation) as of September 30, 2016. This investment in capital assets includes land, buildings, improvements, infrastructure, and equipment.

**The City of Coleman's Capital Assets
(net of depreciation)**

	Governmental Activities	
	2016	2015
Land	\$ 9,980	\$ 9,980
Infrastructure	2,951,870	2,951,870
Equipment	2,817,604	4,832,022
Accumulated depreciation	(4,680,188)	(6,809,129)
Total	\$ 1,099,266	\$ 984,743

	Business-type Activities	
	2016	2015
Land	\$ 317,161	\$ 317,161
Construction in progress	46,399	298,196
Buildings and improvements	249,569	249,569
Water improvements	21,679,452	21,363,943
Airport improvements	2,755,546	2,755,546
Equipment	3,304,715	3,423,711
Accumulated depreciation	(16,125,627)	(15,528,688)
Total	\$ 12,227,215	\$ 12,879,438

Additional information on the City of Coleman's capital assets can be found in Note 5 on pages 26 and 27 of this report.

**THE CITY OF COLEMAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

Debt Administration

The City of Coleman has long term debt in the form of bonds, notes payable and capital leases. As of September 30, 2016, the City had long term liabilities as follows:

Governmental Activities:	
Notes payable	\$ 244,172
Business-type Activities:	
Notes payable	\$ 91,016
Bonds payable	\$ 5,405,000

Additional information on the City of Coleman's long term debt can be found in Note 6 on pages 28 through 29 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City and the component units of the City are working to bring new businesses into the City of Coleman. By bringing in new business, revenue of the City is increased through sales tax and property tax.

- The City of Coleman adopted a 2016 property tax rate effective for its 2017 fiscal year of .52126 per \$100 property valuation. This is composed of the maintenance and operations rate of .24671 and the interest and sinking rate of .27455 per \$100 property valuation.
- These indicators were taken into account when adopting the general fund budget for fiscal year 2016. The general fund budget reflects a balanced budget at \$3,997,164, which is approximately \$185,487 more than the 2016 original budget.

Requests for Information

This financial report is designed to provide a general overview of the City of Coleman's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Secretary, City of Coleman, 200 West Live Oak, Coleman, Texas 76834.

BASIC FINANCIAL STATEMENTS

CITY OF COLEMAN, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<u>ASSETS</u>				
Cash and cash equivalents	\$ 152,191	\$ 1,778,482	\$ 1,930,673	\$ 641,208
Restricted cash and cash equivalents		481,691	481,691	
Investments	151,648	1,762,451	1,914,099	175,407
Receivables:				
Taxes, net	255,719		255,719	82,122
Accounts, net	2,475	404,785	407,260	15,295
Other receivables	2,046	23,106	25,152	26,810
Notes receivable				136,431
Internal balances	351,575	(351,575)		
Bond discount		1,166,891	1,166,891	
Non-depreciable capital assets	9,980	363,560	373,540	220,931
Depreciable capital assets, net	1,089,286	11,863,655	12,952,941	149,445
TOTAL ASSETS	2,014,920	17,493,046	19,507,966	1,447,649
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	630,562	544,106	1,174,668	
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2,645,482	18,037,152	20,682,634	1,447,649
<u>LIABILITIES</u>				
Accounts payable	83,107	467,141	550,248	19,317
Accrued payroll and related taxes		45,791	45,791	4,075
Other liabilities		17,657	17,657	
Due to other governmental entities	94,277		94,277	
Utility deposits		325,795	325,795	
Long term liabilities:				
Due within one year	37,226	597,700	634,926	
Due after one year:				
Compensated absences	62,594	27,167	89,761	
Loans and certificates payable	206,946	4,898,316	5,105,262	
Net pension liability	1,460,702	1,260,425	2,721,127	
TOTAL LIABILITIES	1,944,852	7,639,992	9,584,844	23,392
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	266,032	229,557	495,589	
<u>NET POSITION</u>				
Net Position:				
Net investment in capital assets	855,094	6,731,199	7,586,293	370,376
Restricted	8,095	478,941	487,036	
Unrestricted	(428,591)	2,957,463	2,528,872	1,053,881
TOTAL NET POSITION	\$ 434,598	\$ 10,167,603	\$ 10,602,201	\$ 1,424,257

The accompanying notes are an integral part of the financial statements.

CITY OF COLEMAN, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General administration	\$ 295,859	\$ 11,844	\$	\$
Public safety	1,488,155	73,068	21,500	
Public service	148,724	75,488	1,881	
Culture and recreation	356,721	30,799	4,050	
Health and inspection	9,655			
Cemetery	160,015	52,089		
Environment	54,207			
Streets	519,371	34,519		
Interest	826			
Total governmental activities	<u>3,033,533</u>	<u>277,807</u>	<u>27,431</u>	
Business-type activities:				
Utility	6,770,178	7,922,961		34,925
Municipal airport	279,646	107,988		
Sanitation	733,516	749,664		
Total business-type activities	<u>7,783,340</u>	<u>8,780,613</u>		<u>34,925</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 10,816,873</u>	<u>\$ 9,058,420</u>	<u>\$ 27,431</u>	<u>\$ 34,925</u>
Component units:				
Coleman Economic Development Corp	\$ 270,053	\$ 22,600	\$	\$
Coleman Community Coalition	185,944			
Coleman County Senior Citizens	137,284	8,150	115,492	
Total component units	<u>\$ 593,281</u>	<u>\$ 30,750</u>	<u>\$ 115,492</u>	<u>\$</u>

GENERAL REVENUES:

Taxes:

Property taxes
Sales and use taxes
Franchise taxes
Hotel/motel taxes
Investment income
Miscellaneous income
Transfers

Total general revenues

Change in net position

Net position - beginning
Prior period adjustment

Net position - ending

The accompanying notes are an integral part of the financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			
PRIMARY GOVERNMENT			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (284,015)		\$ (284,015)	
(1,393,587)		(1,393,587)	
(71,355)		(71,355)	
(321,872)		(321,872)	
(9,655)		(9,655)	
(107,926)		(107,926)	
(54,207)		(54,207)	
(484,852)		(484,852)	
(826)		(826)	
<u>(2,728,295)</u>		<u>(2,728,295)</u>	
	1,187,708	1,187,708	
	(171,658)	(171,658)	
	16,148	16,148	
	<u>1,032,198</u>	<u>1,032,198</u>	
<u>(2,728,295)</u>	<u>1,032,198</u>	<u>(1,696,097)</u>	
			(247,453)
			(185,944)
			<u>(13,642)</u>
			<u>(447,039)</u>
578,851		578,851	
412,667		412,667	406,880
85,383	31,263	116,646	
43,194		43,194	
1,555	6,283	7,838	1,309
408,211	71,382	479,593	20,537
<u>1,448,717</u>	<u>(1,448,717)</u>		
<u>2,978,578</u>	<u>(1,339,789)</u>	<u>1,638,789</u>	<u>428,726</u>
250,283	(307,591)	(57,308)	(18,313)
184,315	10,518,749	10,703,064	1,442,570
	(43,555)	(43,555)	
<u>\$ 434,598</u>	<u>\$ 10,167,603</u>	<u>\$ 10,602,201</u>	<u>\$ 1,424,257</u>

CITY OF COLEMAN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General Fund	Nonmajor Governmental Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 147,441	\$ 4,750	\$ 152,191
Investments	151,648		151,648
Receivables:			
Accounts, net	2,475		2,475
Property tax, net	63,367		63,367
Sales tax	164,243		164,243
Hotel/motel tax	10,888		10,888
Franchise tax	17,221		17,221
Due from other governments	2,046		2,046
Due from other funds	<u>352,723</u>		<u>352,723</u>
TOTAL ASSETS	<u>\$ 912,052</u>	<u>\$ 4,750</u>	<u>\$ 916,802</u>
LIABILITIES:			
Accounts payable and accrued expenses	\$ 82,857	\$ 250	\$ 83,107
Due to other governmental entities	94,277		94,277
Due to other funds		1,148	1,148
DERERRED INFLOWS OF RESOURCES:			
Deferred revenue	<u>56,754</u>		<u>56,754</u>
Total liabilities and deferred inflows of resources	<u>233,888</u>	<u>1,398</u>	<u>235,286</u>
FUND BALANCE:			
Unassigned	673,421		673,421
Restricted	<u>4,743</u>	<u>3,352</u>	<u>8,095</u>
Total Fund Balance	<u>678,164</u>	<u>3,352</u>	<u>681,516</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 912,052</u>	<u>\$ 4,750</u>	<u>\$ 916,802</u>

The accompanying notes are an integral part of the financial statements.

CITY OF COLEMAN, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Total Fund Balances - Governmental Funds	\$	681,516
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$7,793,872 and the accumulated depreciation was \$6,809,128. The net effect of the beginning balances for capital assets (net of depreciation) in the governmental activities is an increase to net position.		984,744
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. There were current year capital asset purchases of \$258,046 in the General Fund.		258,046
Depreciation expense is not reflected in the governmental funds, but is recorded in the government-wide financial statements as an expense and an increase to accumulated depreciation. The net effect of the current year depreciation expense of \$143,524 is to decrease net position.		(143,524)
Long term debt is not due and payable in the current period and, therefore, it is not reported in governmental funds. The net effect of recognizing long term debt in the governmental activities is a decrease to net position of \$244,172.		(244,172)
Compensated absences are reported in the government wide statements but are not recorded in the fund financial statements.		(62,594)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the governmental funds. Deferred revenue of \$56,754 is recognized in the government-wide financial statements. This results in an increase in net position.		56,754
Included on the government-wide financial statements is the recognition of the City's proportionate share of the net pension liability of \$1,460,702, a deferred outflow of resources of \$630,562, and a deferred inflow of resources of \$266,032. The net effect is to decrease net position.		<u>(1,096,172)</u>
Net Position of Governmental Activities	\$	<u><u>434,598</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF COLEMAN, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Nonmajor Governmental	Total Governmental Funds
REVENUE:			
Taxes:			
Franchise tax	\$ 85,383	\$	\$ 85,383
Property tax	573,008		573,008
Sales tax	406,880		406,880
Occupancy tax	43,194		43,194
Alcohol beverage tax	5,787		5,787
Total taxes	<u>1,114,252</u>		<u>1,114,252</u>
Licenses & permits	12,067		12,067
Grants	25,550	1,881	27,431
Fines and forfeitures	72,676		72,676
Investment income	1,553	2	1,555
General service fees	177,671		177,671
Internal franchise fees	177,671		177,671
Tower rental	6,744		6,744
Charges for services	205,131		205,131
Donations	4,398		4,398
Miscellaneous Income	29,660		29,660
Total Revenue	<u>1,827,373</u>	<u>1,883</u>	<u>1,829,256</u>
EXPENDITURES:			
Current:			
General government	289,452		289,452
Public safety			
Dispatch	249,435		249,435
Police department	781,895	667	782,562
Fire department	430,369		430,369
Public service			
Animal control	59,066		59,066
Municipal court	85,119		85,119
Health and sanitation	4,998		4,998
Cultural and recreation			
Library	124,109		124,109
Parks	182,282		182,282
City park pool	40,625		40,625
Health and inspection			
City inspection	9,655		9,655
Cemetery	157,320		157,320
Environmental	56,994		56,994
Highways and streets			
Streets	470,990		470,990
Debt service:			
Principal retired	22,566		22,566
Interest	826		826
Capital outlay	258,046		258,046
Total Expenditures	<u>3,223,747</u>	<u>667</u>	<u>3,224,414</u>

CITY OF COLEMAN, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - continued
YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Nonmajor Governmental	Total Governmental Funds
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(1,396,374)	1,216	(1,395,158)
OTHER FINANCING SOURCES (USES)			
Proceeds from long-term debt	220,883		220,883
Transfers in	1,448,717		1,448,717
Transfers out			
Total other financing sources (uses)	<u>1,669,600</u>	<u> </u>	<u>1,669,600</u>
CHANGE IN FUND BALANCE	273,226	1,216	274,442
FUND BALANCE AT BEGINNING OF YEAR	<u>404,938</u>	<u>2,136</u>	<u>407,074</u>
FUND BALANCE AT END OF YEAR	<u>\$ 678,164</u>	<u>\$ 3,352</u>	<u>\$ 681,516</u>

The accompanying notes are an integral part of the financial statements.

CITY OF COLEMAN, TEXAS
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016

Net Change in Fund Balances - Governmental Funds	\$	274,442
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The current year capital asset purchases in the General Fund were \$258,046.		258,046
Depreciation expense is not reflected in the governmental funds, but is recorded in the government-wide financial statements as an expense and an increase to accumulated depreciation. The net effect of the current year depreciation expense of \$143,523 is to decrease net position.		(143,523)
The current year issuance of long term debt provides current financial resources to governmental funds, while repayment of the principal of long term debt consumes the current financial resources of governmental funds. The net effect of recognizing current issuance and payments on long term debt in the government-wide financial statements is a net decrease to net position of \$198,317.		(198,317)
Changes in compensated absences are shown in the statement of activities but are not included in the fund financial statements		9,924
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the governmental funds. The current year adjustment to revenue recognized in the government-wide financial statements is \$5,843. This results in an increase in net position.		5,843
Certain expenditures for pension that are recorded to the fund financial statements must be recorded as deferred outflows of resources. Contributions made after the measurement date caused the change in net position to increase in the amount of \$172,845. The City's share of the unrecognized deferred inflows and outflows for TMRS as of the measurement date must be amortized and the City's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$128,977. The net effect is an increase in net position.		43,868
Change in Net Position of Governmental Activities	\$	250,283

The accompanying notes are an integral part of the financial statements.

CITY OF COLEMAN, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2016

	Utility Fund	Municipal Airport Fund	Sanitation Fund	Total Proprietary Funds
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 1,553,792	\$ 110,847	\$ 113,843	\$ 1,778,482
Restricted cash and cash equivalents	441,751		39,940	481,691
Investments	1,762,451			1,762,451
Accounts receivable, net	373,254		31,531	404,785
Other receivables	22,964	142		23,106
Due from other funds			80,176	80,176
Total Current Assets	4,154,212	110,989	265,490	4,530,691
Noncurrent Assets:				
Bond discount	1,166,891			1,166,891
Capital assets:				
Land	317,161			317,161
Construction in progress	46,399			46,399
Buildings, net	43,901			43,901
Infrastructure and improvements, net	9,021,212	2,284,897		11,306,109
Machinery & equipment, net	202,996	234,643		437,639
City lakes, net	24,467			24,467
Landfill and improvements, net			51,539	51,539
Total Noncurrent Assets	10,823,027	2,519,540	51,539	13,394,106
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	544,106			544,106
Total Assets and Deferred Outflows of Resources	15,521,345	2,630,529	317,029	18,468,903
LIABILITIES:				
Accounts payable	360,380	11,153	95,608	467,141
Due to other funds	382,688	49,063		431,751
Accrued payroll and related taxes	43,407		2,384	45,791
Other liabilities	17,657			17,657
Utility deposits	325,795			325,795
Notes payable	25,821		1,879	27,700
Certificates of obligation	570,000			570,000
Total current	1,725,748	60,216	99,871	1,885,835
Long term liabilities:				
Compensated absences	27,167			27,167
Notes payable	31,915		31,401	63,316
Certificates of obligation	4,835,000			4,835,000
Net pension liability	1,260,425			1,260,425
Total Liabilities	7,880,255	60,216	131,272	8,071,743
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	229,557			229,557
NET POSITION:				
Net investment in capital assets	4,193,400	2,519,540	18,259	6,731,199
Restricted	439,001		39,940	478,941
Unrestricted	2,779,132	50,773	127,558	2,957,463
Total Net Position	\$ 7,411,533	\$ 2,570,313	\$ 185,757	\$ 10,167,603

The accompanying notes are an integral part of the financial statements.

CITY OF COLEMAN, TEXAS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN
NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Utility Fund	Municipal Airport Fund	Sanitation Fund	Total Proprietary Funds
OPERATING REVENUE:				
Water Sales	\$ 1,303,599	\$	\$	\$ 1,303,599
Sewer charges	669,725			669,725
Electric sales	5,835,478			5,835,478
Sanitation charges			749,664	749,664
Gas & oil sales		107,988		107,988
Utilities transfer fee	25,230			25,230
Franchise fee			31,263	31,263
Penalties on utility service	88,929			88,929
Rental income		15,325		15,325
Other income	26,715	1,599	13,594	41,908
Total Operating Revenue	<u>7,949,676</u>	<u>124,912</u>	<u>794,521</u>	<u>8,869,109</u>
OPERATING EXPENSES:				
Utility department				
Sewer administration	27,062			27,062
Water production administration	111,852			111,852
Light production administration	484,806			484,806
Light production department	3,442,299			3,442,299
Light distribution department	713,027			713,027
Water production department	629,760			629,760
Water distribution department	581,284			581,284
Lake Coleman	54,475			54,475
Wastewater collection department	236,618			236,618
Wastewater treatment plant	240,095			240,095
Utility office	96,170			96,170
Utility shop	19,603			19,603
Municipal airport		279,646		279,646
Sanitation			733,516	733,516
Total Operating Expenses	<u>6,637,051</u>	<u>279,646</u>	<u>733,516</u>	<u>7,650,213</u>
Operating Income	<u>1,312,625</u>	<u>(154,734)</u>	<u>61,005</u>	<u>1,218,896</u>
NON-OPERATING REVENUE (EXPENSES)				
Interest income	6,144	44	95	6,283
Interest expense	(133,127)			(133,127)
Grant income	34,925			34,925
Insurance proceeds	4,700	9,449		14,149
Total Non-operating	<u>(87,358)</u>	<u>9,493</u>	<u>95</u>	<u>(77,770)</u>
NET INCOME BEFORE OPERATING TRANSFERS	1,225,267	(145,241)	61,100	1,141,126
OPERATING TRANSFERS				
Transfers in	287,247	23,833		311,080
Transfers out	(1,702,511)		(57,286)	(1,759,797)
Total Operating Transfers	<u>(1,415,264)</u>	<u>23,833</u>	<u>(57,286)</u>	<u>(1,448,717)</u>
CHANGE IN NET POSITION	(189,997)	(121,408)	3,814	(307,591)
NET POSITION - BEGINNING OF YEAR	7,601,530	2,691,721	225,498	10,518,749
Prior period adjustment			(43,555)	(43,555)
NET POSITION - END OF YEAR	<u>\$ 7,411,533</u>	<u>\$ 2,570,313</u>	<u>\$ 185,757</u>	<u>\$ 10,167,603</u>

The accompanying notes are an integral part of the financial statements.

CITY OF COLEMAN, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Utility Fund	Municipal Airport Fund	Sanitation Fund	Total Proprietary Funds
Cash flows from operating activities:				
Receipts from customers	\$ 7,883,461	\$ 109,973	\$ 782,952	\$ 8,776,386
Receipts from other operation functions	140,874	16,924	44,857	202,655
Payments to suppliers	(4,842,249)		(691,985)	(5,534,234)
Payments to employees and related taxes and benefits	(1,635,230)	(10,400)	(44,905)	(1,690,535)
Payments to others		(114,075)		(114,075)
Net cash provided (used) by operating activities	<u>1,546,856</u>	<u>2,422</u>	<u>90,919</u>	<u>1,640,197</u>
Cash flows from noncapital financing activities:				
Operating transfers in/out	(943,213)	31,753	(9,687)	(921,147)
Due from other governments	60,422			60,422
Net cash provided (used) by noncapital financing activities	<u>(882,791)</u>	<u>31,753</u>	<u>(9,687)</u>	<u>(860,725)</u>
Cash flows from capital and related financing activities:				
Principal payments on long-term debt	(585,869)			(585,869)
Interest payments on long-term debt	(42,754)			(42,754)
Proceeds from insurance proceeds	4,700	9,449	33,280	47,429
Acquisition and construction of capital assets	(77,900)	-	(33,280)	(111,180)
Capital grant proceeds	34,925	-		34,925
Net cash provided (used) by capital and related financing activities	<u>(666,898)</u>	<u>9,449</u>	<u></u>	<u>(657,449)</u>
Cash flows from investing activities:				
Interest income	6,144	44	95	6,283
Purchase of investments	(4,786)			(4,786)
Net cash provided (used) by investing activities	<u>1,358</u>	<u>44</u>	<u>95</u>	<u>1,497</u>
Net increase (decrease) in cash and cash equivalents	(1,475)	43,668	81,327	123,520
Cash and cash equivalents at beginning of year	<u>1,997,018</u>	<u>67,179</u>	<u>103,987</u>	<u>2,168,184</u>
Cash and cash equivalents at end of year	<u>\$ 1,995,543</u>	<u>\$ 110,847</u>	<u>\$ 185,314</u>	<u>\$ 2,291,704</u>
Reconciliation of operating income to net cash				
Provided (used) by operating activities:				
Operating income	\$ 1,312,625	\$ (154,734)	\$ 61,005	\$ 1,218,896
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	614,868	145,207	3,328	763,403
(Increase) Decrease in accounts receivable	12,104	1,985	33,288	47,377
Increase (Decrease) in accounts payable	(422,420)	9,964	(7,782)	(420,238)
Increase (Decrease) in payroll accruals	4,977		1,080	6,057
Increase (Decrease) in pension liability	(37,853)			(37,853)
Increase (Decrease) in customer deposits	31,024			31,024
Net cash provided (used) by operating activities	<u>1,515,325</u>	<u>2,422</u>	<u>90,919</u>	<u>\$ 1,608,666</u>

The accompanying notes are an integral part of the financial statements.

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the City of Coleman, Texas (City) are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2016.

The financial statements of the City of Coleman, Texas have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to city units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

REPORTING ENTITY

The City of Coleman is a "Home Rule City." The City was formed to provide local residents a voice in local government and as a means to provide services to local citizens. The City operates under a Council-Mayor form of government. Using the Council-Mayor system, the City provides the following basic services: public safety (police, fire, dispatch), public service (animal control, municipal court, health, and sanitation), cultural and recreation (library, park, city pool), health and inspection, cemetery, and highways and streets, water, sewer, solid waste, electric, and general administrative services.

In conformity with U.S. general accepted accounting principles, the City has considered all potential component units. The basic criterion is the governing body's ability to exercise oversight responsibility which includes financial interdependency, selection of governing authority, the designation of management, and accountability for fiscal matters.

The City has oversight responsibility for the Coleman Economic Development Corporation, the Coleman Community Coalition Type B Economic Development Corporation, and the Coleman County Senior Center. The City is financially accountable for the three component units since the City Council appoints a majority of their boards and the City is able to impose its will on the entities. The audited financial statements of these entities are discretely presented component units, presented as governmental type activities using the modified accrual basis of accounting.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide financial statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund financial statements

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. 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 by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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.

Property taxes, sales taxes, franchise taxes, hotel/motel taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenues include all taxes.

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

Budgetary Control

The City Manager submits an annual budget to the City Council in accordance with the City Charter. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocations of resources. In August, the City Council adopts the annual fiscal year budget for the City's operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. The operating budgets of the City were amended in November of 2016.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by sources. Expenditures are budgeted by department and class. Budget revisions at the class level are subject to review by the City Council.

The City prepared the original 2016 budgets for the general fund and the proprietary funds on the modified accrual basis of accounting. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the expenditure is incurred. The amended budgets for the proprietary funds; however, were prepared on the GAAP basis of accounting.

Excess of Expenditures over Appropriations

During fiscal year 2016, in the general fund, expenditures exceeded the amended budget in total by \$36,912. Several departments within the general fund reflect expenditures in excess of the budget for the year; however, funds were available to cover all unbudgeted expenditures with available unrestricted fund balance. General fund revenues were less than budgeted amounts by \$125,997, and the City's overall revenues over expenditures compared to the amended budget reflected an unfavorable variance of \$162,909.

Use of Estimates

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

Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental fund:

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

The City reports the Law Enforcement fund as a non-major governmental fund.

Proprietary Funds

The City reports the following major enterprise funds:

Utility Fund - The Utility Fund reports revenues and expenses associated with water, sewer, and electric services for citizens of the City. The Utility Fund is financed and operated in a manner similar to private business enterprises - where the intent of the government body is that the costs (expenses including depreciation) of providing services to the general public on a continuing basis will be financed or recovered primarily through user charges.

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Municipal Airport Fund – The Municipal Airport Fund reports revenues and expenses associated with the operations of the City owned airport.

Sanitation Fund – The Sanitation Fund reports revenues and expenses associated with the operations of the City’s sanitation department.

Assets, Liabilities, and Net Position or Equity

Cash and cash equivalents

For purposes of the statement of cash flows, all cash and highly liquid investments are considered to be cash equivalents if they have an initial maturity of three months or less when purchased.

Receivables and payables

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

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

Capital assets, depreciation, and amortization

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for the proprietary fund. In the governmental fund financial statements, capital assets are recorded as expenditures. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Capital assets are stated at historical cost or estimated cost if actual historical cost is not available. The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the lives is not capitalized.

Capital assets in the proprietary fund are capitalized and are depreciated on the straight-line method over the estimated useful lives of the respective assets. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against operations. Accumulated depreciation is reported on the proprietary fund balance sheet. The estimated useful lives of fixed assets are as follows:

Buildings and Improvements	20 - 50 years
Infrastructure	20 - 40 years
Equipment	3 - 10 years

Compensated Absences

Full time, permanent employees are granted vacation benefits in varying amounts to specified maximums. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued in the government-wide, proprietary, and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and is included in wages and benefits payable.

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Long-term debt

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. The governmental fund financial statements recognize the proceeds for debt and premiums as other financial sources of the current period. Issuance costs are reported as expenditures.

Pensions

For 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 addition 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 their fair value.

Fund balance classifications

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The city has no nonspendable funds for the year ended September 30, 2016.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the revenue note and restricted through debt covenants. Federal or state funds are restricted for use only for a specific use. The City has \$487,036 restricted funds at September 30, 2016.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the City Council's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the Council delegating this responsibility to management through the budgetary process. The City has no assigned funds for the year ended September 30, 2016.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2: DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash Deposits

The City's cash deposits were entirely covered by FDIC insurance or be pledged collateral held by the City's bank in the City's name at September 30, 2016.

The Coleman Economic Development Corporation, Coleman Community Coalition Type B Economic Development Corporation, and the Coleman County Senior Center were fully collateralized at September 30, 2016.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing equity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposits, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2016 are as follows:

	<u>Reported Amount/Fair Value</u>
Governmental Activities:	
Certificates of Deposits	\$ 151,648
Total Governmental Activities	<u>151,648</u>
Business-type Activities:	
Certificates of Deposit	100,000
TexPool	1,662,451
	<u>1,762,451</u>
Total Government	<u>\$ 1,914,099</u>

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2: DEPOSITS AND INVESTMENTS - continued

Custodial credit risk – deposits. Deposits in financial institutions are carried at cost which approximates fair value. At September 30, 2016, the City had cash and cash investments, which represents cash on hand, demand deposits and savings accounts at federally insured local banks. At September 30, 2016, the City's deposits were fully secured by federal depository insurance and pledged securities held by the City's agent in the City's name.

Statutes authorize the City to invest in obligations of the U.S. Treasury or the State of Texas, certain repurchase agreements, common trust funds, certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation, and other investments specifically authorized by Chapter 2256 Public Funds Investment Act (PFIA) and Chapter 2257 Collateral for Public Funds of the Texas Government Code. The City is in compliance with the requirements of the PFIA.

NOTE 3: ACCOUNTS RECEIVABLE

Significant receivables in the Proprietary Funds include amounts due from customers primarily for utility and sanitation services. An allowance has been recorded to estimate the uncollectible receivables at year end. The accounts receivables in the Utility Fund and the Sanitation Fund total \$373,254 (net of an allowance of \$28,960) and \$31,531 (net of an allowance of \$960), respectively.

NOTE 4: TAXES RECEIVABLE

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of tax bill and are delinquent if not paid before February 1 of the year following the year in which tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. The tax rate to finance general governmental services and service the debt for the year ended September 30, 2016 was \$.5252 per \$100 valuation (.23645 for maintenance and operations and .28875 for debt service).

Allowances for uncollectible taxes receivable within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

In the governmental fund financial statements, property taxes receivable is recorded in the General Fund. At fiscal year-end, the receivable represent delinquent taxes. If the receivables are not paid within 60 days of year-end, they are recorded as deferred revenue.

Property taxes receivable (net) is computed as follows:

	General
	<u>Fund</u>
Property taxes receivable	\$ 83,693
Less: Allowance for uncollectible taxes	<u>(20,326)</u>
Property taxes receivable (net)	<u>\$ 63,367</u>

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 5: CAPITAL ASSETS

A summary of changes in governmental capital assets is as follows:

<u>Government Activities:</u>	Balance September 30, 2015	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2016
Capital assets, not being depreciated:				
Land	\$ 9,980	\$	\$	\$ 9,980
Total capital assets, not being depreciated	<u>9,980</u>	<u></u>	<u></u>	<u>9,980</u>
Capital assets being depreciated:				
Infrastructure	2,951,870			2,951,870
Equipment	4,832,021	258,047	(2,272,464)	2,817,604
Total assets being depreciated	<u>7,783,891</u>	<u>258,047</u>	<u>(2,272,464)</u>	<u>5,769,474</u>
Less accumulated depreciation for:				
Infrastructure	(2,523,321)	(12,422)		(2,535,743)
Equipment	(4,285,807)	(131,102)	2,272,464	(2,144,445)
Total accumulated depreciation	<u>(6,809,128)</u>	<u>(143,524)</u>	<u>2,272,464</u>	<u>(4,680,188)</u>
Total capital assets being depreciated, net	<u>974,763</u>	<u>114,523</u>	<u></u>	<u>1,089,286</u>
Governmental activities capital assets, net	<u>\$ 984,743</u>	<u>\$ 114,523</u>	<u>\$</u>	<u>\$ 1,099,266</u>

A summary of changes in business-type capital assets is as follows:

<u>Business-type activities:</u>	Balance September 30, 2015	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2016
Capital assets, not being depreciated:				
Land	\$ 317,161	\$	\$	\$ 317,161
Construction in progress	298,196	49,149	(300,946)	46,399
Total capital assets, not being depreciated	<u>615,357</u>	<u>49,149</u>	<u>(300,946)</u>	<u>363,560</u>
Capital assets being depreciated:				
Buildings and improvements	249,569			249,569
Water improvements	21,363,943	315,509		21,679,452
Airport Improvements	2,755,546			2,755,546
Equipment	3,423,711	47,468	(166,464)	3,304,715
Total assets being depreciated	<u>27,792,769</u>	<u>362,977</u>	<u>(166,464)</u>	<u>27,989,282</u>
Less accumulated depreciation for:				
Buildings and improvements	(202,019)	(3,648)		(205,667)
Water improvements	(12,105,558)	(528,218)		(12,633,776)
Airport Improvements	(372,769)	(97,881)		(470,650)
Equipment	(2,848,342)	(133,656)	166,464	(2,815,534)
Total accumulated depreciation	<u>(15,528,688)</u>	<u>(763,403)</u>	<u>166,464</u>	<u>(16,125,627)</u>
Total capital assets being depreciated, net	<u>12,264,081</u>	<u>(400,426)</u>	<u></u>	<u>11,863,655</u>
Business-type activities capital assets, net	<u>\$ 12,879,438</u>	<u>\$ (351,277)</u>	<u>\$ (300,946)</u>	<u>\$ 12,227,215</u>

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 5: CAPITAL ASSETS - continued

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

Governmental activities:	
General Government	\$ 6,873
Public safety	62,444
Streets	55,117
Culture and recreation	14,994
Cemetery	4,096
	<u>\$ 143,524</u>
Business-type activities:	
Utility Shop	\$ 1,106
Sewer	17,182
Light	314,744
Utility	3,066
Sanitation	3,329
Municipal Airport	145,207
Water	278,769
	<u>\$ 763,403</u>

A summary of changes in City of Coleman, Texas component unit's capital assets is as follows:

<u>Component Units Combined</u>	Balance September 30, 2015	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2016
Capital assets, not being depreciated:				
Land	\$ 133,641	\$ 87,290	\$	\$ 220,931
Total capital assets, not being depreciated	<u>133,641</u>	<u>87,290</u>		<u>220,931</u>
Capital assets being depreciated:				
Buildings and improvements	241,771			241,771
Furniture and Equipment	68,947	4,244		73,191
Total assets being depreciated	<u>310,718</u>	<u>4,244</u>		<u>314,962</u>
Less accumulated depreciation for:				
Buildings and improvements	(92,878)	(16,029)		(108,907)
Furniture and Equipment	(49,824)	(6,786)		(56,610)
Total accumulated depreciation	<u>(142,702)</u>	<u>(22,815)</u>		<u>(165,517)</u>
Total capital assets being depreciated, net	<u>168,016</u>	<u>(18,571)</u>		<u>149,445</u>
Business-type activities capital assets, net	<u>\$ 301,657</u>	<u>\$ 68,719</u>	<u>\$</u>	<u>\$ 370,376</u>

Depreciation expense was charged to functions/programs of the component unit as follows:

Economic Development Corp	\$ 19,717
Community Coalition	3,098
Senior Citizens Center	-0-
Total Depreciation	<u>\$ 22,815</u>

CITY OF COLEMAN, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 6: LONG TERM DEBT

In January 2008, the City was approved for Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2008, in the amount of \$5,024,000 from the Drinking Water State Revolving Fund administered by the Texas Water Development Board. The release of funds is required to occur through multiple installments. The funds will include an additional \$885,000 in Loan Forgiveness through the DWSRT Disadvantaged Program. The bonds are 0% interest. Interest was imputed on these bonds. A bond discount of \$1,445,436 resulted in the imputed interest. The balance at 9/30/2016 is \$3,835,000.

In January 2010, the City issued \$1,735,000 of General Obligation Refunding Bonds with interest rates ranging from 2.0% to 3.5%. The refunding issued achieved total present value savings equal to 4.672% of the \$1,845,000 refunded amount. Average annual savings will be \$11,953 from 2011 through 2018. Total debt service savings through the life of the refunding issue is \$95,620. The balance at 09/30/2016 is \$475,000.

In January 2013, the City issued \$1,765,000 of General Obligation Refunding Bonds, which refunded the Tax and Utility System Surplus Revenue Certificates of Obligation. Interest rates are at 1.83%. The refunding issue achieved total present value savings equal to 11.582% of the \$1,680,000 refunded amount. Average annual savings will be \$23,402 from 2014 to 2022. Total debt service savings through the life of the refunding issue is \$214,725. The balance at 09/30/2016 is \$1,095,000.

In November 2012, the City entered into a note agreement with Caterpillar Financial for a Caterpillar motor grader in the amount of \$86,538. Payments of \$23,392 with an interest rate of 3.2% are due annually until October 2016. The balance at 09/30/2016 is \$23,289.

In November 2013, the City entered into an \$80,870 note agreement with Government Capital Financing to purchase a low boy trailer and recloser. The note was for a term of 5 years with quarterly payments, including interest, of \$4,373 through September 2018. The balance of this loan at 09/30/2016 is \$31,201.

In April 2014, the City entered into a note agreement with Caterpillar Financial Services Corporation for a Caterpillar backhoe and excavator in the amount of \$49,643. The interest rate is 3.2% and monthly payments of \$896, including interest, are due from the City for 60 months. The balance at 09/30/2016 is \$26,535.

In June 2016, the City entered into a note agreement with Government Capital Financing to purchase a street sweeper in the amount of \$132,550. The interest rate is 3.546% and two payments per year of \$10,737, including interest, are due from the City for 14 total payments. The balance at 09/30/2016 is \$132,550.

In March 2016, the City entered into a note agreement with Government Capital Financing to purchase a brush chipper and two police cars in the amount of \$121,613. The interest rate is 3.61% and two payments per year of \$9,974, including interest, are due from the City for 14 total payments. The balance at 09/30/2016 is \$121,613.

CITY OF COLEMAN, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 6: LONG TERM DEBT - continued

A schedule of the City's transaction in the long term debt for the year ended September 30, 2016 is as follows:

	<u>Balance at 09/30/2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 09/30/2016</u>
Primary Government:				
<i>Governmental Activities:</i>				
Notes Payable	\$ 45,855	\$ 220,883	\$ 22,566	\$ 244,172
	<u>45,855</u>	<u>220,883</u>	<u>22,566</u>	<u>244,172</u>
 <i>Business-Type Activities:</i>				
Notes Payable	83,605	33,280	25,869	91,016
Bonds Payable	5,965,000		560,000	5,405,000
	<u>6,048,605</u>	<u>33,280</u>	<u>585,869</u>	<u>5,496,016</u>
 Total Primary Government	 \$ 6,094,460	 \$ 254,163	 \$ 608,435	 \$ 5,740,188

The annual aggregate maturities for the governmental and business-type activities at September 30, 2016:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Long Term Bonds:			
<i>Business-type activities:</i>			
2017	\$ 570,000	\$ 33,979	\$ 603,979
2018	585,000	23,818	608,818
2019	355,000	12,124	367,124
2020	355,000	8,738	363,738
2021	360,000	5,307	365,307
2022-2026	1,035,000	1,784	1,036,784
2027-2031	825,000		825,000
2032-2036	825,000		825,000
2037-2039	495,000		495,000
	<u>5,405,000</u>	<u>85,750</u>	<u>5,490,750</u>
 <i>Notes Payable:</i>			
<i>Governmental Activities:</i>			
2017	51,540	8,533	60,073
2018	29,400	6,636	36,036
2019	30,459	5,578	36,037
2020	31,557	4,479	36,036
2021	32,695	3,342	36,037
2022-2026	68,521	3,106	71,627
	<u>244,172</u>	<u>31,674</u>	<u>275,846</u>
 <i>Business-type activities:</i>			
2017	29,834	3,803	33,637
2018	30,194	3,442	33,636
2019	10,651	943	11,594
2020	4,710	676	5,386
2021	4,882	504	5,386
2022-2023	10,745	470	11,215
	<u>91,016</u>	<u>9,838</u>	<u>100,854</u>
 Total Primary Government	 \$ 5,740,188	 \$ 127,262	 \$ 5,867,450

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 7: BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Generally, outstanding balances between funds reported as “due to/due from other funds” include outstanding loans from other funds for operating expenses. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as “due to/due from other funds” (i.e., the current portion of interfund loans).

The following schedule reports receivables and payables at year-end:

Fund with Due From	Fund with Due to		Amount
General	Sanitation	\$	54,826
Sanitation	Utility		135,001
General	Law Enforcement		1,148
General	Airport		49,063
General	Utility		247,686

NOTE 8: RISK FINANCING

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors or omissions. The City has purchased commercial insurance to insure against these losses. There were no significant reductions in coverage in the past year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

NOTE 9: COMMITMENTS AND CONTINGENCIES

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Such audits could result in requests for reimbursement by the grantor agencies for expenses disallowed under terms and conditions specified in the grant agreement.

NOTE 10: PENSION PLAN

A. Plan Description

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

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

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 10: PENSION PLAN - continued

B. 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% of the member's deposits and interests.

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 for the plan years 2014 and 2015 were as follows:

Employee deposit rate:	7.0%
Employer deposit rate (2015)	18.57%
Matching ratio (City to employee):	2 to 1
Years required for vesting:	5 years
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25
Updated service credit	100% Repeating, Transfers
Annuity increase (to retirees)	50% of CPI Repeating

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	44
Inactive employees entitled to but not yet receiving benefits	32
Active employees	<u>68</u>
Total	144

C. Contributions

The contribution rates for employees in the TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the 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 of Coleman were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Coleman were 18.57% and 17.73% in calendar years 2015 and 2016 respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$453,772, and were equal to the required contributions.

D. Net Pension Liability

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

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 10: PENSION PLAN – continued

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Health Mortality Table, with male rates multiplied by 109% and female rates multiplied 103%. 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 30, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the are between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 10: PENSION PLAN - continued

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75. 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 Total Pension Liability.

Changes in the Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance as 12/31/2014	\$ 13,291,392	\$10,846,457	\$2,444,935
Changes for the year:			
Service cost	377,525		377,525
Interest	924,126		924,126
Change of benefit terms			
Difference between expected and actual experience	(642,470)		(642,470)
Changes of assumptions	265,483		265,483
Contributions – employer		466,754	(466,754)
Contributions – employee		175,944	(175,944)
Net Investment Income		16,004	(16,004)
Benefit Payments, including refunds of employee contributions	(556,701)	(556,701)	
Administrative expense		(9,748)	9,748
Other changes		(482)	482
Net Changes	367,963	91,771	276,192
Balance 12/31/2015	\$ 13,659,355	\$ 10,938,228	\$ 2,721,127

Sensitivity of the Net Pension Liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 4,523,807	\$ 2,721,127	\$1,226,709

Pension Plan Fiduciary Net Position

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

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$384,757.

CITY OF COLEMAN, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 10: PENSION PLAN - continued

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience		\$ 495,589
Changes in actuarial assumptions	179,006	
Difference between projected and actual investment earnings	673,672	
Contributions subsequent to the measurement date	321,990	
Total	\$ 1,174,668	\$ 495,589

\$321,990 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 net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	
2016	\$ 8,073
2017	33,956
2018	166,412
2019	148,648
2020	0
Thereafter	0
Total	\$ 357,089

NOTE 11: HEALTH CARE COVERAGE

During the year ended September 30, 2016, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$534 per month per employee per month for October 2015 through March 2016, and \$617 from April through September 2016. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by a contractual agreement.

NOTE 12: CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City to place a cover on its City of Coleman Landfill site. The original landfill was a Type I landfill and the City made the decision in 1997 to close the landfill. By closing the landfill the City avoided the new requirements for installing monitoring wells and other expensive closing requirements. The City had to monitor the landfill for five years. As of January 2003, the city had completely closed the Type I portion of the landfill and no additional cost is expected. The remaining portion of the landfill site was converted to a Type IV (debris only) landfill. The City has instructed to open a landfill trust to cover any future costs of closing the Type IV proportion of the landfill. The trust is to cover 30 years. The trust was started in 1998 with contributions of \$5,636. The City made additional contributions until the trust reached a balance of \$37,746, the estimated amount needed to cover the Type IV proportion of the landfill. Each year as the landfill is used; the city covered the filled portion of the landfill using landfill maintenance expense funds. The City remains in compliance with all closure requirements and there are no unfunded closure needs as of September 30, 2016. The trust remains intact and will only be used in the event the City is unable to provide the proper funds for closure anytime in the 30 years following the final closure.

CITY OF COLEMAN, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 13: DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will 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 deferred outflows of resources for the difference between projected and actual earnings for its pension plan, assumption changes for the pension plan, and contributions to the pension plan after the measurement date, but before the end of the fiscal year.

In addition to liabilities, the statement of net position will 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 deferred inflows of resources for the differences between expected and actual experience related to the pension plan. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

On the governmental fund financial statements, in addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported in the governmental funds of unavailable revenues are reported for property tax revenues in the amount of \$56,754.

NOTE 14: PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to the Proprietary Fund's net position of \$43,555. This decrease in the Sanitation Fund's net position was due to the correction of a payable to Progressive Waste Solutions related to the disposal costs of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COLEMAN, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2016

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUE:				
Taxes:				
Franchise tax	\$ 90,000	\$ 86,279	\$ 85,383	\$ (896)
Property tax	565,534	575,289	573,008	(2,281)
Sales tax	415,000	480,555	406,880	(73,675)
Occupancy tax	37,000	52,633	43,194	(9,439)
Alcohol beverage tax	7,000	5,399	5,787	388
Total taxes	<u>1,114,534</u>	<u>1,200,155</u>	<u>1,114,252</u>	<u>(85,903)</u>
Licenses & permits	7,000	12,067	12,067	
Intergovernmental	17,500	27,550	25,550	(2,000)
Fines and forfeitures	62,700	62,809	72,676	9,867
Investment income	1,450	1,416	1,553	137
General service fees	219,800	177,671	177,671	
Internal franchise fees	219,800	177,671	177,671	
Tower rental	34,000	34,236	6,744	(27,492)
Charges for services	237,683	218,548	205,131	(13,417)
Donations	4,500	4,398	4,398	
Miscellaneous Income	2,900	36,849	29,660	(7,189)
Total Revenue	<u>1,921,867</u>	<u>1,953,370</u>	<u>1,827,373</u>	<u>(125,997)</u>
EXPENDITURES:				
Current:				
General government	298,555	252,786	289,452	(36,666)
Public safety				
Dispatch	267,781	251,575	249,435	2,140
Police department	805,899	787,116	781,895	5,221
Fire department	427,846	431,237	430,369	868
Public service				
Animal control	58,365	59,319	59,066	253
Municipal court	113,183	79,064	85,119	(6,055)
Health and sanitation	7,000	5,385	4,998	387
Cultural and recreation				
Library	127,112	126,526	124,109	2,417
Parks	174,695	183,444	182,282	1,162
City park pool	31,810	41,552	40,625	927
Health and inspection				
City inspection	6,160	9,654	9,655	(1)
Cemetery	153,083	165,195	157,320	7,875
Environmental	51,561	57,198	56,994	204
Highways and streets				
Streets	476,954	463,081	470,990	(7,909)
Debt service:				
Principal retired	22,566	22,566	22,566	
Interest	826	826	826	
Capital outlay	70,652	250,311	258,046	(7,735)
Total Expenditures	<u>3,094,048</u>	<u>3,186,835</u>	<u>3,223,747</u>	<u>(36,912)</u>

CITY OF COLEMAN, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND - continued
YEAR ENDED SEPTEMBER 30, 2016

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	\$ (1,172,181)	\$ (1,233,465)	\$ (1,396,374)	\$ (162,909)
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt		220,883	220,883	
Transfers in	1,474,810	1,457,154	1,448,717	(8,437)
Transfers out	(302,629)			
Total other financing sources (uses)	<u>1,172,181</u>	<u>1,678,037</u>	<u>1,669,600</u>	<u>(8,437)</u>
CHANGE IN FUND BALANCE		444,572	273,226	(171,346)
FUND BALANCE AT BEGINNING OF YE	<u>404,938</u>	<u>404,938</u>	<u>404,938</u>	
FUND BALANCE AT END OF YEAR	<u>\$ 404,938</u>	<u>\$ 849,510</u>	<u>\$ 678,164</u>	<u>\$ (171,346)</u>

CITY OF COLEMAN, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed)
YEARS ENDED DECEMBER 31

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service cost	\$ 377,525	\$ 323,904
Interest (on the Total Pension Liability)	924,126	888,783
Changes of benefit terms	-	-
Difference between expected and actual experience	(642,470)	(150,669)
Change of Assumptions	265,483	-
Benefit payments, including refunds of employee contributions	<u>(556,701)</u>	<u>(611,161)</u>
Net Change in Total Pension Liability	367,963	450,857
Total Pension Liability - Beginning	<u>13,291,392</u>	<u>12,840,535</u>
Total Pension Liability - Ending (a)	<u>\$ 13,659,355</u>	<u>\$ 13,291,392</u>
 Plan Fiduciary Net Position		
Contributions - Employer	\$ 466,754	\$ 415,577
Contributions - Employee	175,944	157,466
Net Investment Income	16,004	589,342
Benefit payments, including refunds of employee contributions	(556,701)	(611,161)
Administrative Expense	(9,748)	(6,153)
Other	<u>(482)</u>	<u>(506)</u>
Net Change in Plan Fiduciary Net Position	91,771	544,565
Plan Fiduciary Net Position - Beginning	<u>10,846,457</u>	<u>10,301,892</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 10,938,228</u>	<u>\$ 10,846,457</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ 2,721,127</u>	<u>\$ 2,444,935</u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	80.08%	81.61%
 Covered Employee Payroll	\$ 2,513,483	\$ 2,249,513
 Net Pension Liability as a Percentage of Covered Employee Payroll	108.26%	108.69%

CITY OF COLEMAN, TEXAS
SCHEDULE OF CONTRIBUTIONS
Last 10 Years (will ultimately be displayed)
YEARS ENDED SEPTEMBER 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 393,556	\$ 446,857	\$ 453,772
Contributions in relation to the actuarially determined contribution	<u>393,556</u>	<u>446,857</u>	<u>453,772</u>
Contributions deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Covered employee payroll	\$ <u>2,192,839</u>	\$ <u>2,409,604</u>	\$ <u>2,525,286</u>
Contributions as a percentage of covered payroll	17.95%	18.54%	17.97%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 Years
Asset Valuation Method	10 Year smoothed market: 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

OTHER SUPPLEMENTARY INFORMATION

CITY OF COLEMAN, TEXAS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
BUDGET (GAAP BASIS) AND ACTUAL - UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Utility Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUE:				
Water Sales	\$ 1,351,150	\$ 1,313,985	\$ 1,303,599	\$ (10,386)
Sewer charges	681,000	661,150	669,725	8,575
Electric sales	6,479,375	5,840,025	5,835,478	(4,547)
Utilities transfer fee	25,000	25,230	25,230	
Penalties on utility service	78,500	90,056	88,929	(1,127)
Other income	9,386	33,728	26,715	(7,013)
Total Operating Revenue	<u>8,624,411</u>	<u>7,964,174</u>	<u>7,949,676</u>	<u>(14,498)</u>
OPERATING EXPENSES:				
Utility department				
Sewer administration	29,078	27,425	27,062	363
Water production administration	123,546	117,990	111,852	6,138
Light production administration	530,618	500,892	484,806	16,086
Light production department	3,960,658	3,754,557	3,442,299	312,258
Light distribution department	514,846	730,209	713,027	17,182
Water production department	597,005	662,632	629,760	32,872
Water distribution department	383,575	571,844	581,284	(9,440)
Lake Coleman	53,923	55,527	54,475	1,052
Wastewater collection department	309,348	255,886	236,618	19,268
Wastewater treatment plant	234,577	241,697	240,095	1,602
Utility office	131,358	94,711	96,170	(1,459)
Utility shop	25,589	19,603	19,603	
Total Operating Expenses	<u>6,894,121</u>	<u>7,032,973</u>	<u>6,637,051</u>	<u>395,922</u>
Operating Income	<u>1,730,290</u>	<u>931,201</u>	<u>1,312,625</u>	<u>381,424</u>
NON-OPERATING REVENUE (EXPENSES)				
Interest income	2,100	6,144	6,144	
Principal payments on debt	(280,000)			
Interest expense	(22,629)	(66,214)	(133,127)	(66,913)
Grant income		26,300	34,925	8,625
Insurance proceeds			4,700	4,700
Total Non-operating	<u>(300,529)</u>	<u>(33,770)</u>	<u>(87,358)</u>	<u>(53,588)</u>
NET INCOME BEFORE OPERATING TRANSFERS	1,429,761	897,431	1,225,267	327,836
OPERATING TRANSFERS				
Transfers in			287,247	287,247
Transfers out	(1,429,761)	(1,427,594)	(1,702,511)	(274,917)
Total Operating Transfers	<u>(1,429,761)</u>	<u>(1,427,594)</u>	<u>(1,415,264)</u>	<u>12,330</u>
CHANGE IN NET POSITION		(530,163)	(189,997)	340,166
NET POSITION - BEGINNING OF YEAR	<u>7,601,530</u>	<u>7,601,530</u>	<u>7,601,530</u>	
NET POSITION - END OF YEAR	<u>\$ 7,601,530</u>	<u>\$ 7,071,367</u>	<u>\$ 7,411,533</u>	<u>\$ 340,166</u>

CITY OF COLEMAN, TEXAS
COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
SEPTEMBER 30, 2016

	Coleman Economic Development Corp	Coleman Community Coalition	Coleman County Senior Center	Total Component Units
ASSETS:				
Cash and cash equivalents	\$ 233,260	\$ 404,738	\$ 3,210	\$ 641,208
Investments	124,779	50,628		175,407
Sales tax receivable	41,061	41,061		82,122
Accounts receivable	15,295			15,295
Due from other governments	8,801		18,009	26,810
Note receivable		136,431		136,431
Non-depreciable capital assets	220,931			220,931
Depreciable capital assets, net	<u>139,683</u>	<u>9,762</u>		<u>149,445</u>
TOTAL ASSETS	<u>783,810</u>	<u>642,620</u>	<u>21,219</u>	<u>1,447,649</u>
LIABILITIES:				
Accounts payable	4,565	13,615	1,137	19,317
Accrued payroll	2,692			2,692
Accrued payroll taxes			1,383	1,383
TOTAL LIABILITIES	<u>7,257</u>	<u>13,615</u>	<u>2,520</u>	<u>23,392</u>
NET POSITION:				
Net investment in capital assets	360,614	9,762		370,376
Unrestricted	<u>415,939</u>	<u>619,243</u>	<u>18,699</u>	<u>1,053,881</u>
TOTAL NET POSITION	<u>\$ 776,553</u>	<u>\$ 629,005</u>	<u>\$ 18,699</u>	<u>\$ 1,424,257</u>

CITY OF COLEMAN, TEXAS
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
YEAR ENDED SEPTEMBER 30, 2016

	Coleman Economic Development Corp	Coleman Community Coalition	Coleman County Senior Center	Total Component Units
REVENUE:				
Sales tax revenue	\$ 203,440	\$ 203,440	\$	\$ 406,880
Rental income	22,600		8,150	30,750
Intergovernmental revenue			42,084	42,084
Contributions			72,479	72,479
Fundraising			929	929
Miscellaneous income	9,000	7,919	3,618	20,537
Investment income	497	810	2	1,309
Total Revenue	235,537	212,169	127,262	574,968
OPERATING EXPENSES:				
Salaries, taxes and benefits	50,095	49,394	61,971	161,460
Accounting fees	8,452	8,439		16,891
Advertising, marketing and promotion	30,871	30,421		61,292
Consumables			4,153	4,153
Depreciation expense	19,717	3,098		22,815
Dues and subscriptions		165	145	310
Food			49,703	49,703
Grants, projects and incentives	7,177	55,853		63,030
Insurance	7,673	297	232	8,202
Janitorial			522	522
Legal fees	11,541	5,828		17,369
Match - AOA			2,257	2,257
Meals		2,263		2,263
Miscellaneous expenses	1,591		1,091	2,682
Office expenses	9,547	9,250	1,016	19,813
Professional services		16,245		16,245
Property taxes	2,336			2,336
Repairs and maintenance	113,277		805	114,082
Supplies		11	433	444
Telephone and internet	1,750	502	1,781	4,033
Travel and seminars	4,129	747	1,531	6,407
Utilities	1,897	3,431	11,644	16,972
Total Operating Expenses	270,053	185,944	137,284	593,281
CHANGE IN NET POSITION	(34,516)	26,225	(10,022)	(18,313)
NET POSITION AT BEGINNING OF YEAR	811,069	602,780	28,721	1,442,570
NET POSITION AT END OF YEAR	\$ 776,553	\$ 629,005	\$ 18,699	\$ 1,424,257