

**CITY OF COLORADO
CITY, TEXAS**

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S
REPORT

APRIL 30, 2017

Roberts & McGee, CPA
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CITY OF COLORADO CITY, TEXAS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Colorado City, 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 Colorado City, Texas, as of and for the year ended April 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Colorado City, Texas, as of April 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension related schedules 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.

Roberts + McGee, CPA
Roberts & McGee, CPA

Abilene, Texas,
August 4, 2017

**THE CITY OF COLORADO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2017**

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

Financial Highlights

Government-Wide Financial Statements

- The assets of the City of Colorado City exceeded its liabilities at the close of the most recent fiscal year by \$8,852,228 (*net position*). Of this amount, \$730,577 (*unrestricted*) may be used to meet the government's ongoing obligations to citizens. \$7,261,646 of the City's equity is invested in capital assets, net of related debt; and \$860,005 of the City's equity is restricted for debt service and other purposes.
- The City's total assets decreased by \$1,554,429 during the 2017 fiscal year.
- The net position (*equity*) of the City decreased by \$409,776 prior to the adjustment to beginning net position during the 2017 fiscal year.

Fund Financial Statements

- As of the close of the current fiscal year, the City of Colorado City's General Fund reported an ending unassigned fund balance of \$898,199. This fund balance reflects an increase of \$69,643 for the current year.
- In the Water and Wastewater Fund, the net position reflects \$560,015 of unrestricted equity, which is a decrease of \$67,596 from the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Colorado City's basic financial statements. The City of Colorado City'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 Colorado City'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 Colorado City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event 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 Colorado City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City of Colorado City include general administration, public safety, streets, municipal court, airport, sanitation, and economic development.

**THE CITY OF COLORADO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2017**

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

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Colorado City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Colorado City 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 Colorado City 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 Time Warrant Fund, which is considered to be a non-major fund.

The governmental fund financial statements can be found on pages 11-14 of this report.

The City of Colorado City 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 36-37.

Proprietary fund. 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 fund (a component of proprietary funds) is 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 fund. The proprietary fund financial statements can be found on pages 15-17 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 18-35 of this report.

**THE CITY OF COLORADO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2017**

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 Colorado City, assets exceeded liabilities by \$8,852,228 at the close of the most recent fiscal year.

\$7,261,646 of the City of Colorado City's net position (82 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), net of related debt. The City of Colorado City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

The City of Colorado City's Net Position

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Current assets	\$ 1,440,486	\$ 1,338,520
Capital assets	<u>5,149,786</u>	<u>5,910,377</u>
Total Assets	<u>6,590,272</u>	<u>7,248,897</u>
Deferred outflows of resources - pensions	<u>182,266</u>	<u>221,418</u>
Total assets and deferred outflows of resources	6,772,538	7,470,315
Current liabilities	383,141	376,500
Long-term liabilities	<u>1,330,512</u>	<u>1,517,518</u>
Total Liabilities	<u>1,713,653</u>	<u>1,894,018</u>
Deferred inflows of resources - pensions	<u>71,427</u>	<u> </u>
Total liabilities and deferred inflows of resources	1,785,080	1,894,018
Net investment in capital assets	4,516,644	5,169,316
Restricted	300,252	247,780
Unrestricted	<u>170,562</u>	<u>159,201</u>
Total Net Position	<u>\$ 4,987,458</u>	<u>\$ 5,576,297</u>
	<u>Business-type Activities</u>	
	<u>2017</u>	<u>2016</u>
Current assets	\$ 1,255,525	\$ 1,401,314
Capital assets	<u>10,846,842</u>	<u>11,596,857</u>
Total Assets	<u>12,102,367</u>	<u>12,998,171</u>
Deferred outflows of resources - pension	<u>70,881</u>	<u>86,107</u>
Total assets and deferred outflows of resources	12,173,248	13,084,278
Current liabilities	1,111,898	1,202,083
Long-term liabilities	<u>7,168,803</u>	<u>8,168,076</u>
Total Liabilities	<u>8,280,701</u>	<u>9,370,159</u>
Deferred inflows of resources - pension	<u>27,777</u>	<u> </u>
Total liabilities and deferred inflows of resources	8,308,478	9,370,159
Net investment in capital assets	2,745,002	2,569,298
Restricted	559,753	517,210
Unrestricted	<u>560,015</u>	<u>627,611</u>
Total Net Position	<u>\$ 3,864,770</u>	<u>\$ 3,714,119</u>

**THE CITY OF COLORADO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2017**

The City of Colorado City's Changes in Net Position

	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
Revenues:				
Program Revenues:				
Charges for services	\$ 829,618	\$ 972,894	\$ 2,613,300	\$ 2,602,446
Capital grants & contributions	88,372	16,742	65,407	676,843
Operating grants & contributions	10,000	62,451		
General Revenues				
Property taxes	552,423	530,401	299,129	302,404
Sales and use taxes	608,863	699,431		
Franchise taxes	291,960	314,328		
Hotel/motel taxes	54,084	43,748		
Investment earnings	10,414	5,370	9,230	6,224
Miscellaneous income	33,748	93,520	49,916	189,556
Transfers	595,470	700,000	(595,470)	(700,000)
Total Revenues	<u>3,074,952</u>	<u>3,438,885</u>	<u>2,441,512</u>	<u>3,077,473</u>
Expenses				
General government	517,255	542,367		
Public safety	1,035,195	1,093,136		
Public works	1,211,304	1,252,427		
Culture and recreation	356,964	383,149		
Sanitation	474,859	759,095		
Airport	22,534	37,115		
Interest on long-term debt	17,697	22,453	234,300	
Water and sewer			<u>2,056,132</u>	<u>2,383,422</u>
Total expenses	<u>3,635,808</u>	<u>4,089,742</u>	<u>2,290,432</u>	<u>2,383,422</u>
Increase (decrease) in net position	(560,856)	(650,857)	151,080	694,051
Beginning Net Position	5,576,297	5,780,487	3,714,119	3,466,735
Prior period adjustment	<u>(27,983)</u>	<u>446,667</u>	<u>(429)</u>	<u>(446,667)</u>
Ending Net Position	<u>\$ 4,987,458</u>	<u>\$ 5,576,297</u>	<u>\$ 3,864,770</u>	<u>\$ 3,714,119</u>

FINANCIAL ANALYSIS OF THE GOVERNMENTS FUNDS

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

Governmental funds. The focus of the City of Colorado City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Colorado City'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 Colorado City's governmental General Fund reported an ending fund balance of \$920,858, of which \$898,199 is unassigned and available for spending at the City's discretion.

Fund Budgetary Highlights

The original budget reflected a balanced budget. There was one budget amendment made during the year ended April 30, 2017. The actual expenditures were \$391,631 less than the adjusted budgeted amounts. Actual revenues were \$142,462 less than was budgeted. Other financing sources were \$171,784 under budget.

**THE CITY OF COLORADO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets The City of Colorado City's investment in capital assets for its governmental activities amounts to \$5,149,786 (net of accumulated depreciation), and the investment in capital assets for its business-type activities amounts to \$10,846,842 (net of accumulated depreciation) as of April 30, 2017. This investment in capital assets includes land, buildings and improvements, infrastructure, and equipment.

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

	Governmental Activities 2017	Governmental Activities 2016
Land	\$ 313,364	\$ 313,364
Construction in progress		11,121
Buildings and systems	1,227,784	1,223,042
Infrastructure	2,138,255	2,776,935
Equipment and vehicles	1,470,383	1,585,915
Total	\$ 5,149,786	\$ 5,910,377

	Business-type Activities 2017	Business-type Activities 2016
Land	\$ 717,472	\$ 717,472
Construction in progress		165,572
Building and systems	6,148,708	6,580,167
Utility service lines	3,804,256	3,914,538
Equipment and vehicles	176,406	219,108
Total	\$ 10,846,842	\$ 11,596,857

Additional information on the City of Colorado City's capital assets can be found in Note 4 on pages 25 and 26 of this report.

Debt Administration

The City of Colorado City has long term debt in the form of capital leases and notes payable within the governmental activities of the City and capital leases, notes payable, general obligation bonds, and certificates of obligation within the business-type activities. As of April 30, 2017, the City had long term liabilities as follows:

**THE CITY OF COLORADO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2017**

	Balance April 30, 2017	Balance April 30, 2016
Governmental Activities:		
Capital Leases	\$ 147,622	\$ 299,653
Notes Payable	485,520	441,408
Net Pension Liability	150,838	232,433
Compensated Absences	78,872	73,378
Landfill Post Closure	743,181	735,822
Total Governmental Activities	\$ 1,606,033	\$ 1,782,694
Business-Type Activities		
Certificates of Obligation	\$ 2,500,000	\$ 2,690,000
General Obligation Bonds	4,925,000	5,390,000
Unamortized Debt Premium	98,607	107,640
Tax Notes	465,000	690,000
Capital Lease	77,483	149,919
Notes Payable	35,750	
Net Pension Liability	58,660	90,391
Compensated Absences	11,319	12,885
Total Business-Type Activities	\$ 8,171,819	\$ 9,130,835

Additional information on the City of Colorado City's long term debt can be found in Note 5 on pages 27 through 30 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The budgeted revenue and expenditures for the year beginning May 1, 2017 reflects a decrease of general fund revenue and expenses of approximately \$309,000 and a decrease in water sales revenue of \$124,000. The City has been notified that the local jail will be closing in August of 2017. The City has estimated that the closing of the jail will be a loss of water sale revenue from \$150,000 to \$180,000. Budget amendments to the water fund revenue will be made during fiscal year 2018 to reflect the budget shortfall, and the City is reviewing additional expense cuts which may be made due to the lost revenue.

Requests for Information

This financial report is designed to provide a general overview of the City of Colorado City'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 Colorado City, 180 West 3rd Street, Colorado City, Texas 79512.

BASIC FINANCIAL STATEMENTS

CITY OF COLORADO CITY, TEXAS
STATEMENT OF NET POSITION
APRIL 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>ASSETS</u>				
Cash and cash equivalents	\$ 748,531	\$ 415,321	\$ 1,163,852	\$ 171,585
Restricted cash and cash equivalents	289,279	493,397	782,676	
Investments				78,359
Receivables:				
Taxes, net	283,232	94,122	377,354	
Accounts, net	71,168	216,385	287,553	
Other	1,017		1,017	
Interfund balances	12,416	(12,416)		
Prepaid expenses	34,843	13,848	48,691	
Inventory		34,868	34,868	
Non-depreciable capital assets	313,364	717,472	1,030,836	
Depreciable capital assets, net	4,836,422	10,129,370	14,965,792	
TOTAL ASSETS	6,590,272	12,102,367	18,692,639	249,944
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	182,266	70,881	253,147	
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	6,772,538	12,173,248	18,945,786	249,944
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable	107,620	15,900	123,520	
Accrued interest payable		28,207	28,207	
Deposits		64,775	64,775	
Long term liabilities:				
Due within one year	275,521	1,003,016	1,278,537	
Due after one year:				
Compensated absences	78,872	11,319	90,191	
Capital leases payable	26,221		26,221	
Net pension liability	150,838	58,660	209,498	
Notes payable	331,400	254,250	585,650	
General obligation bonds		4,539,574	4,539,574	
Certificates of obligation		2,305,000	2,305,000	
Landfill post closure liability	743,181		743,181	
TOTAL LIABILITIES	1,713,653	8,280,701	9,994,354	
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	71,427	27,777	99,204	
<u>NET POSITION</u>				
Net Position:				
Net investment in capital assets	4,516,644	2,745,002	7,261,646	
Restricted	300,252	559,753	860,005	
Unrestricted	170,562	560,015	730,577	249,944
TOTAL NET POSITION	\$ 4,987,458	\$ 3,864,770	\$ 8,852,228	\$ 249,944

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

CITY OF COLORADO CITY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2017

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government	\$ 517,255	\$ 56,170	\$	\$
Public safety	1,035,195	13,708	8,785	88,372
Public works	1,211,304	6,950	1,215	
Culture and recreation	356,964	50,750		
Sanitation	474,859	698,998		
Airport	22,534	3,042		
Interest	17,697			
Total governmental activities	<u>3,635,808</u>	<u>829,618</u>	<u>10,000</u>	<u>88,372</u>
Business-type activities:				
Water and wastewater services	2,056,132	2,613,300		65,407
Interest	234,300			
Total business-type activities	<u>2,290,432</u>	<u>2,613,300</u>		<u>65,407</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 5,926,240</u>	<u>\$ 3,442,918</u>	<u>\$ 10,000</u>	<u>\$ 153,779</u>
Component unit:				
Heart of West Texas Museum	\$ 29,667	\$	\$ 23,784	\$
Main Street	11,622		3,447	
Volunteer Fire Department	82,616	11,423	72,275	
Total component units	<u>\$ 123,905</u>	<u>\$ 11,423</u>	<u>\$ 99,506</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				
Adjustment to net position				
Net position - ending				

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

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			
PRIMARY GOVERNMENT			COMPONENT UNIT
Governmental Activities	Business-type Activities	Total	Component Units
\$ (461,085)	\$	\$ (461,085)	
(924,330)		(924,330)	
(1,203,139)		(1,203,139)	
(306,214)		(306,214)	
224,139		224,139	
(19,492)		(19,492)	
(17,697)		(17,697)	
<u>(2,707,818)</u>		<u>(2,707,818)</u>	
	622,575	622,575	
	(234,300)	(234,300)	
	388,275	388,275	
<u>(2,707,818)</u>	<u>388,275</u>	<u>(2,319,543)</u>	
			\$ (5,883)
			(8,175)
			<u>1,082</u>
			(12,976)
552,423	299,129	851,552	
608,863		608,863	
291,960		291,960	
54,084		54,084	3,743
10,414	9,230	19,644	4,112
33,748	49,916	83,664	
<u>595,470</u>	<u>(595,470)</u>		
<u>2,146,962</u>	<u>(237,195)</u>	<u>1,909,767</u>	<u>7,855</u>
(560,856)	151,080	(409,776)	(5,121)
5,576,297	3,714,119	9,290,416	255,065
<u>(27,983)</u>	<u>(429)</u>	<u>(28,412)</u>	
<u>\$ 4,987,458</u>	<u>\$ 3,864,770</u>	<u>\$ 8,852,228</u>	<u>\$ 249,944</u>

CITY OF COLORADO CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
APRIL 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 748,531	\$	\$ 748,531
Restricted cash and cash equivalents	22,659	266,620	289,279
Receivables:			
Accounts, net	71,168		71,168
Property tax, net	150,317		150,317
Sales tax	113,516		113,516
Hotel/motel tax		12,714	12,714
Franchise tax	6,685		6,685
Other	1,017		1,017
Interfund	12,857	(441)	12,416
Prepaid expenses	34,843		34,843
TOTAL ASSETS	\$ 1,161,593	\$ 278,893	\$ 1,440,486
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:			
Accounts payable and accrued expenses	\$ 106,320	\$ 1,300	\$ 107,620
Deferred inflow of resources:			
Deferred revenue	134,415		134,415
Total Liabilities and Deferred Inflows of Resources	240,735	1,300	242,035
FUND BALANCE:			
Unassigned	898,199		898,199
Restricted for:			
Court technology	5,526		5,526
Law enforcement	3,543		3,543
Police training	7,935		7,935
Cemetery care	5,655	101,999	107,654
Tourism		90,436	90,436
Debt retirement		85,158	85,158
Total Fund Balance	920,858	277,593	1,198,451
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,161,593	\$ 278,893	\$ 1,440,486

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

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

Total Fund Balances - Governmental Funds	\$	1,198,451
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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 \$35,748,089 and the accumulated depreciation was \$29,837,712. The net effect of the beginning balances for capital assets (net of depreciation) in the governmental activities is an increase to net position.		5,910,377
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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 \$238,090 in the General Fund.		238,090
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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 \$998,681 is to decrease net position.		(998,681)
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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 \$633,142		(633,142)
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Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the governmental funds. Deferred revenue of \$134,415 is recognized in the government-wide financial statements. This results in an increase in net position.		134,415
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Long term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds. The net effect of recognizing long term liabilities related to the City's landfill closure and post closure requirement is a decrease in net position.		(743,181)
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Long term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds. The net effect of recognizing long term liabilities related to the City's compensated absences liability results in a decrease in net position.		(78,872)
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Included on the government-wide financial statements is the recognition of the City's proportionate share of the net pension liability of \$150,838, a deferred outflow of resources of \$182,266, and a deferred inflow of resources of \$71,427. The net effect is to decrease net position.		(39,999)
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Net Position of Governmental Activities	\$	4,987,458
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The accompanying notes are an integral part of the financial statements.

CITY OF COLORADO CITY, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED APRIL 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUE:			
Taxes:			
Property	\$ 570,132	\$	\$ 570,132
Sales	608,863		608,863
Occupancy		54,084	54,084
Franchise	291,960		291,960
Charges for service	766,746		766,746
Insurance recovery	3,704		3,704
Fines	45,477		45,477
Licenses and permits	17,352		17,352
Intergovernmental	8,785		8,785
Investment earnings	4,134	1,987	6,121
Contributions and donations	89,587		89,587
Miscellaneous income	33,748		33,748
Total Revenue	<u>2,440,488</u>	<u>56,071</u>	<u>2,496,559</u>
EXPENDITURES:			
Current:			
General government	482,875		482,875
Public safety	913,777		913,777
Public works	529,068		529,068
Culture and recreation	238,491	47,656	286,147
Sanitation	352,159		352,159
Airport	13,566		13,566
Debt service:			
Principal retired	152,031	105,644	257,675
Interest	6,410	13,019	19,429
Capital outlay			
Public safety	243,739		243,739
Airport	5,473		5,473
Total Expenditures	<u>2,937,589</u>	<u>166,319</u>	<u>3,103,908</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(497,101)	(110,248)	(607,349)
OTHER FINANCING SOURCES (USES)			
Proceeds from debt issuance	149,756		149,756
Sale of assets	1,100		1,100
Transfers in (out)	423,630	171,840	595,470
Total other financing sources (uses)	<u>574,486</u>	<u>171,840</u>	<u>746,326</u>
CHANGE IN FUND BALANCE	77,385	61,592	138,977
FUND BALANCE AT BEGINNING OF YEAR	860,335	216,001	1,076,336
Adjustment to beginning fund balance	<u>(16,862)</u>		<u>(16,862)</u>
FUND BALANCE AT END OF YEAR	<u>\$ 920,858</u>	<u>\$ 277,593</u>	<u>\$ 1,198,451</u>

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

CITY OF COLORADO CITY, TEXAS
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2017

Net Change in Fund Balances - Governmental Funds	\$	138,977
Amounts reported for governmental activities in the statement of activities are different because:		
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 \$249,211.		249,211
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 \$998,681 is to decrease net position.		(998,681)
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 increase to net position of \$107,919.		107,919
Other changes in long term liabilities are not recognized in the current period expenditures. The adjustments to these other long term liabilities are recognized in the government-wide financial statements and resulted in a decrease in net position.		(12,853)
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 \$16,445. This results in an decrease in net position.		(16,445)
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 \$28,755. 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 \$57,739. The net effect is a decrease in net position.		<u>(28,984)</u>
Change in Net Position of Governmental Activities	\$	<u><u>(560,856)</u></u>

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

CITY OF COLORADO CITY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
APRIL 30, 2017

	<u>Water and Wastewater Fund</u>
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 415,321
Restricted cash and cash equivalents	493,397
Accounts receivable, net	216,385
Property tax receivable	94,122
Inventory	34,868
Prepaid expenses	<u>13,848</u>
Total Current Assets	<u>1,267,941</u>
Noncurrent Assets:	
Non-depreciable capital assets	717,472
Depreciable capital assets, net	<u>10,129,370</u>
Total Noncurrent Assets	<u>10,846,842</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	<u>70,881</u>
Total Assets and Deferred Outflows of Resources	<u>12,185,664</u>
LIABILITIES:	
Accounts payable	15,900
Accrued interest payable	28,207
Compensated absences	11,319
Due to other funds	12,416
Customer security deposits	64,775
Long term liabilities:	
Due within one year	1,003,016
Due after one year:	
Net pension liability	58,660
General obligation bonds	4,539,574
Tax notes	235,000
Note payable	19,250
Certificates of obligation	<u>2,305,000</u>
Total Liabilities	<u>8,293,117</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	<u>27,777</u>
NET POSITION:	
Net investment in capital assets	2,745,002
Restricted for debt service	559,753
Unrestricted	<u>560,015</u>
Total Net Position	<u>\$ 3,864,770</u>

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

CITY OF COLORADO CITY, TEXAS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN
NET POSITION - PROPRIETARY FUND
YEAR ENDED APRIL 30, 2017

	<u>Water and Wastewater Fund</u>
OPERATING REVENUE:	
Charges for sales and services:	
Water sales	\$ 1,490,286
Sewer charges	1,028,461
Other charges for services	<u>94,553</u>
Total Operating Revenue	<u>2,613,300</u>
OPERATING EXPENSES:	
Personnel services	546,564
Supplies	106,360
Other services and charges	535,603
Depreciation	<u>867,605</u>
Total Operating Expenses	<u>2,056,132</u>
Operating Income	<u>557,168</u>
NON-OPERATING REVENUE (EXPENSES)	
Property taxes	299,129
Intergovernmental	65,407
Lease income	45,647
Interest income	9,230
Insurance recovery	10,163
Loss on disposal of assets	(5,894)
Interest expense	<u>(234,300)</u>
Total Non-operating Revenue (Expenses)	<u>189,382</u>
NET INCOME BEFORE OPERATING TRANSFERS	746,550
OPERATING TRANSFERS	
Transfers out	<u>(595,470)</u>
CHANGE IN NET POSITION	151,080
NET POSITION BEGINNING OF YEAR	3,714,119
Adjustment to beginning net position	<u>(429)</u>
NET POSITION END OF YEAR	<u>\$ 3,864,770</u>

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

CITY OF COLORADO CITY, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED APRIL 30, 2017

	<u>Water and Wastewater Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 2,629,546
Payments to suppliers	(305,718)
Payments to employees and related taxes and benefits	(536,858)
Payments to others	(535,721)
Net cash provided by operating activities	<u>1,251,249</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating transfers out	(595,470)
Property tax revenue	305,938
Miscellaneous income	55,810
Net cash used by noncapital financing activities	<u>(233,722)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal payments on long-term debt	(966,186)
Proceeds from issuance of debt	49,500
Interest payments on long-term debt	(245,213)
Acquisition and construction of capital assets	(123,481)
Capital grant proceeds	198,005
Net cash used by capital and related financing activities	<u>(1,087,375)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	9,230
Net cash provided by investing activities	<u>9,230</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(60,618)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>969,336</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 908,718</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 557,168
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	867,605
(Increase) Decrease in utility receivable	971
(Increase) Decrease in prepaid expenses	(118)
Increase (Decrease) in accounts payable	(157,996)
Increase (Decrease) in interfund borrowing	(41,362)
Increase (Decrease) in compensated absences	(1,566)
Increase (Decrease) in customer deposits	15,275
Increase (Decrease) in pension liability	11,272
Net cash provided by operating activities	<u><u>\$ 1,251,249</u></u>

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

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2017

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Colorado City, 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. The more significant of the City's accounting policies are described below.

REPORTING ENTITY

The City of Colorado City, Texas was incorporated on December 3, 1948. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public works, culture, recreation, water, sewer, sanitation, streets, and general administrative services.

In conformity with U.S. generally accepted accounting principles, the City has considered all potential component units. This report includes the financial statements of the component units for which the City is considered to be financially accountable. 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.

Discretely Presented Component Units

The component unit column in the government-wide financial statements includes the financial data of the combined component units of the City of Colorado City, Texas. The financial information is listed in a separate column to emphasize that these entities are legally separate from the City.

The Heart of West Texas, Inc. is a legally separate nonprofit corporation pursuant to the Texas Non-Profit Corporation Act and permitted under Section 501(c)(3) of the Internal Revenue Code. The City is financially accountable for the museum because the museum is fiscally dependent upon the City. Separate financial statements for the museum are not prepared.

Colorado City Main Street Program is a legally separate nonprofit corporation pursuant to the Texas Non-Profit Corporation Act and permitted under Section 501(c)(3) of the Internal Revenue Code. Main Street was formed in 2006 and operates as a volunteer-based program that helps revive downtown areas focusing on design, economic restructuring, organization, and promotion. The City Council appoints the board members who serve Main Street and provide general fund budgeted funds to fund the program director salary. Separate financial statements are not prepared for Colorado City Main Street.

The Volunteer Fire Department is responsible for providing support to the fireman that are employees of the City of Colorado City. The City is financially accountable for the volunteer firemen because the volunteers are dependent upon the City for the use of the City equipment and facilities. Separate financial statements are not prepared for the volunteer fire department.

GOVERNMENT-WIDE AND FUND 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 and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Financial information for the component units is aggregated and reported separately from the financial information presented for the primary government.

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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*.

Separate financial statements are provided for governmental funds and proprietary funds.

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.

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 following major proprietary fund:

Water and Wastewater Fund - This enterprise fund is used to account for the activities of the City's water and sewer services which are 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.

Additionally, the government reports the following non-major fund types:

Debt service fund accounts for accumulation of resources for payment of long-term debt.

Special revenue funds:

Cemetery care fund accounts for the nonspendable funds accumulated for long-term cemetery care as well as annual donations that can be used for cemetery maintenance.

Motel tax fund is used to account for the local portion of taxes collected by hotels and motels located within the City. Funds are restricted for tourism purposes by tax code chapter 351.

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer, and sanitation services are charges to customers for sales and services. Operating expense for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

BUDGETARY CONTROL

The City Charter establishes the fiscal year as the twelve-month period beginning May 1. The departments submit to the City Manager a budget of estimated expenditures and revenues to the City Council by April 1.

Upon receipt of the budget estimates, the Council holds a first reading on the Budget Ordinance and Tax Roll Ordinance. Information about the Budget Ordinance is then published in the official newspaper of the City.

Prior to May 1st, the budget is legally enacted through passage of an ordinance. The City Manager is authorized to transfer budgeted amounts between line items and departments within any fund within the final three months of the fiscal year by resolution; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Budgeted amounts are as originally adopted or as amended by the City Council. The City passed one budget amendment during the year. This budget amendment changed the revenues and expenses within departments, but did not change the overall budgeted revenues or expenses.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During fiscal year 2017 in the general fund, expenditures exceeded the budget in a couple of departmental areas; however, funds were available to cover these unbudgeted expenditures.

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.

CITY OF COLORADO CITY, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City. State statutes authorize the City to invest in (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations guaranteed by the United States or State of Texas, (4) obligations of states agencies, counties, cities and other political subdivision of any state that are rated as investment quality and have received a rating not less than A or its equivalent, (5) certificates of deposit issued by state or national banks domiciled in Texas that are insured or secured by Obligations that are described above. All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

For purposes of the statement of cash flows, the Enterprise funds considers investments with a maturity of three months or less are considered to be cash equivalents.

INVENTORY

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditure when consumed rather than 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). All other outstanding balance between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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

RESTRICTED ASSETS

Certain proceeds of the City’s enterprise fund certificates of obligation, as well as certain resources set aside for repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited. Certain bank accounts in the governmental and enterprise funds are maintained in separate accounts and are limited as to their use.

CAPITAL ASSETS

Capital assets, which include property, plant, and equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements 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 three years. Capital assets are stated at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donations.

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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

CITY OF COLORADO CITY, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital assets in the primary government, are depreciated using the straight line method over the following estimated useful lives. The estimated useful lives of capital assets are as follows:

Buildings	20 - 50 years
Water and Sewer System	30 - 50 years
Machinery and Equipment	3 - 10 years
Improvements	5 - 50 years

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 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. The City has unavailable revenue related to property taxes which is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

COMPENSATED ABSENCES

It is the government's policy to permit employees to accumulated earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

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.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. In the government-wide statement of net position and the proprietary fund type statement of net position, debt premiums and discounts are netted against debt payable and debt issuance costs are recognized as an outflow of resources in the period incurred. On the government-wide and proprietary fund type statement of activities, unamortized debt premiums and discounts are deferred and amortized over the life of the debt using the straight line method.

EQUITY CLASSIFICATIONS

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position."

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS APRIL 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Governmental Fund Statements

Governmental fund equity is classified as fund balance. In accordance with Governmental Accounting Standards Board Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balance as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact (such as inventory).

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

Assigned – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council through the budget process or agenda item. The assignment can be reversed by the same process.

Unassigned – all other spendable amounts.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. This net investment in capital assets amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limits imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed unless the City Council has provided otherwise in its commitment or assignment actions.

Payment between the City and the Component Units

Resource flows between a primary government and its discretely presented component units are reported as external transactions - that is, as revenues and expenses. Payments to component units are primarily subsidized funding for operating costs of the component units.

NOTE 2: DEPOSITS AND INVESTMENTS

At April 30, 2017 the City's deposits including the deposits of the component units, were fully insured or collateralized as required by the state statutes. At year-end the carrying amount of the City's deposits totaled \$1,946,528 and the component units' carrying amount of deposits totaled \$171,585. The respective bank balances totaled \$2,018,334 and \$171,703. Of the total City's bank balances, \$250,000 was covered by Federal Depository Insurance. The remainder was fully covered by collateral with a value of \$2,623,960. The collateral for the City is held by the City National Bank and is held in the City's name. The component units' bank accounts were fully covered by Federal Depository Insurance.

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017

NOTE 2: DEPOSITS AND INVESTMENTS - continued

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 address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date of the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

As of April 30, 2017, the City only had certificates of deposit which were considered to be cash equivalents for reporting purposes.

The investments of the component unites at April 30, 2017 are show below:

Heart of West Texas, Inc.

Investment or Investment Type	Book Value	Fair Value
Fixed Income Fund	\$ 33,113	\$ 32,168

Volunteer Fire Department

Investment or Investment Type	Book Value	Fair Value
Federal Bond Fund Mutual Fund	\$ 47,943	\$ 46,191

Interest rate risk - The City's policy is to manage interest rate risk by investing in government securities and certificates of deposits with no more than 24 month maturities.

Credit risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City has chosen to invest in certificates of deposit.

Custodial credit risk for deposits – Should law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. The City was in compliance with this requirement.

Concentration of credit risk – To limit the risk of loss, the City's investment policy states an investment risk that should avoid the over-concentration of assets in a specific maturity sector, limits the average maturity of operating funds investments to one year, and avoidance of the over-concentration of assets in specific instruments other than U.S. Treasury Securities and Insured or Collateralized Certificates of Deposits.

Restricted Cash and Cash Equivalents

Certain of the City's cash and cash equivalents are restricted for the following purposes:

Cash and cash equivalents

General Fund:	
Law enforcement education	\$ 3,543
Police department	7,935
Court technology	5,526
Cemetery Care	5,655
Non-major governmental funds:	
Tourism	79,023
Cemetery care	101,999
Debt service	85,598
Enterprise fund	
Debt service	493,397
Total restricted cash and cash equivalents	<u>\$ 782,676</u>

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017

NOTE 3: ACCOUNTS RECEIVABLE

Receivables as of year-end for the government's individual major funds, and aggregate non-major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Non-Major Governmental Funds	Major Proprietary Fund	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Receivables:				
Accounts	\$ 134,805	\$	\$ 383,979	\$ 518,784
Grants	-			-
Taxes	324,088	12,714	120,681	457,483
Other	<u>1,017</u>		<u>19,496</u>	<u>20,513</u>
Gross receivables	459,910	12,714	524,156	996,780
Less: Allowance for uncollectible	<u>117,207</u>		<u>213,649</u>	<u>330,856</u>
Net total receivables	<u>\$ 342,703</u>	<u>\$ 12,714</u>	<u>\$ 310,507</u>	<u>\$ 665,924</u>

Intergovernmental receivables are classified separately in the accompanying financial statements. All significant receivables are expected to be collected within one year.

NOTE 4: CAPITAL ASSETS

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

<u>Government Activities:</u>	Balance April 30, 2016	Additions/ Completions	Retirements/ Adjustments	Balance April 30, 2017
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets, not being depreciated:				
Land	\$ 313,364	\$	\$	\$ 313,364
Construction in progress	<u>11,121</u>		<u>(11,121)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>324,485</u>	<u>-</u>	<u>(11,121)</u>	<u>313,364</u>
Capital assets being depreciated:				
Buildings and improvements	2,213,690	99,455		2,313,145
Infrastructure	29,533,413			29,533,413
Equipment	<u>3,676,502</u>	<u>149,756</u>		<u>3,826,258</u>
Total assets being depreciated	<u>35,423,605</u>	<u>249,211</u>		<u>35,672,816</u>
Less accumulated depreciation for:				
Buildings and improvements	(990,647)	(94,714)		(1,085,361)
Infrastructure	(26,756,477)	(638,681)		(27,395,158)
Equipment	<u>(2,090,589)</u>	<u>(265,286)</u>		<u>(2,355,875)</u>
Total accumulated depreciation	<u>(29,837,713)</u>	<u>(998,681)</u>		<u>(30,836,394)</u>
Total capital assets being depreciated, net	<u>5,585,892</u>	<u>(749,470)</u>		<u>4,836,422</u>
Governmental activities capital assets, net	<u>\$ 5,910,377</u>	<u>\$ (749,470)</u>	<u>\$ (11,121)</u>	<u>\$ 5,149,786</u>

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017

NOTE 4: CAPITAL ASSETS - continued

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

<u>Business-type activities:</u>	Balance April 30, 2016	Additions/ Completions	Retirements/ Adjustments	Balance April 30, 2017
Capital assets, not being depreciated:				
Land	\$ 717,472	\$	\$	\$ 717,472
Construction in progress	165,572	60,985	(226,557)	-
Total capital assets, not being depreciated	<u>883,044</u>	<u>60,985</u>	<u>(226,557)</u>	<u>717,472</u>
Capital assets being depreciated:				
Buildings and systems	14,192,851	49,500		14,242,351
Utility Service Lines	13,422,680	226,556		13,649,236
Machinery and equipment	492,348			492,348
Vehicles	181,780	13,000	(15,718)	179,062
Total assets being depreciated	<u>28,289,659</u>	<u>289,056</u>	<u>(15,718)</u>	<u>28,562,997</u>
Less accumulated depreciation for:				
Buildings and systems	(7,612,684)	(480,959)		(8,093,643)
Utility Service Lines	(9,508,142)	(336,838)		(9,844,980)
Machinery and equipment	(313,242)	(39,561)		(352,803)
Vehicles	(141,778)	(10,247)	9,824	(142,201)
Total accumulated depreciation	<u>(17,575,846)</u>	<u>(867,605)</u>	<u>9,824</u>	<u>(18,433,627)</u>
Total capital assets being depreciated, net	<u>10,713,813</u>	<u>(578,549)</u>	<u>(5,894)</u>	<u>10,129,370</u>
Business-type activities capital assets, net	<u>\$ 11,596,857</u>	<u>\$ (517,564)</u>	<u>\$ (232,451)</u>	<u>\$ 10,846,842</u>

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

Governmental activities:	
General Government	\$ 24,559
Public Safety	103,947
Public Works	679,582
Airport	8,968
Culture and recreation	68,194
Sanitation	113,431
	<u>\$ 998,681</u>
Business-type activities:	
Water and wastewater	\$ 867,605

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017

NOTE 5: LONG TERM DEBT

At April 30, 2017, capital lease obligations consisted of the following individual leases:

	<u>Governmental Activities</u>
Caterpillar Financial - due in 60 monthly payments of \$4,571 including interest at 2.38% through September 30, 2017, secured by the Caterpillar track tractor	\$ 22,741
Caterpillar Financial - due in 60 monthly payments of \$2,769 including interest at 2.95% through January 2018, secured by the Caterpillar small wheel loader	30,073
Caterpillar Financial - due in 60 monthly payments of \$2,919 including interest at 2.80% through November 2018, secured by the Caterpillar Excavator	54,303
Welch State Bank - due in 60 monthly payments of \$2,944 including interest at 2.78% through June 2018, secured by an Asphalt Zipper	40,505
Total Governmental Activities Leases Payable	\$ <u><u>147,622</u></u>
	<u>Business-Type Activities</u>
Public Capital Financial - due in 10 annual payments in various increments including interest at 4.9% through February 2018, secured by the Drive-by water metering system	\$ 77,483
Total Business-Type Activities Leases Payable	\$ <u><u>77,483</u></u>

The future lease obligations as of April 30, 2017, were as follows:

Year Ended	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
April 30			
2018	\$ 198,884	\$ 5,663	\$ 204,547
2019	26,221	210	26,431
	\$ <u><u>225,105</u></u>	\$ <u><u>5,873</u></u>	\$ <u><u>230,978</u></u>

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017

NOTE 5: LONG TERM DEBT - continued

At April 30, 2017, long-term debt consisted of the following:

	<u>Business-Type Activities</u>
<u>Certificates of Obligation:</u>	
Series 2013 Combination Tax & Surplus Revenue Certificates of Obligation, issued July 12, 2013, bearing interest at 2.0% - 3.5% due in annual installment through March 2028.	\$ 2,500,000
<u>General Obligation Refunding Bonds:</u>	
General Obligation Refunding Bonds Series 2012, dated June 1, 2012, due in annual installments through 2035, bearing interest at 2% until March 2024, and 3% thereafter.	4,110,000
General Obligation Refunding Bonds, Series 2014 dated March 1, 2014, due in annual installments through 2020, bearing interest from 0.54% through 2.4% increasing annually.	815,000
<u>Tax Notes</u>	
Tax Notes, Series 2012 issued June 1, 2012, bearing interest at 1.0% to 2.0% due in annual installments through March 2019.	465,000
<u>Notes Payable</u>	
Non-interest bearing note payable issued June 2016, due in annual installments of \$1,375 through June 2019.	35,750
	<u>\$ 7,925,750</u>
	<u>Government-Type Activities</u>
<u>Notes Payable</u>	
Notes payable to First Financial Bank, dated June 11, 2015, bearing interest at 2.948%, due in annual installments through April 2020.	\$ 335,764
Notes Payable with Government Capital Corporation, dated July 2016, bearing interest at 2.948%, due in yearly installments of \$52,890 through July 2019.	149,756
	<u>\$ 485,520</u>

The annual aggregate maturities for the governmental and business-type activities at April 30, 2017 are as follows:

Year Ended April 30	<u>Governmental Activities</u>		<u>Business Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 154,120	\$ 14,319	\$ 916,500	\$ 223,812
2019	161,869	9,684	941,500	203,971
2020	169,531	4,912	712,750	187,120
2021			440,000	169,700
2022			445,000	158,750
2023-2027			2,420,000	599,125
2028-2032			1,660,000	241,550
2033-2035			390,000	31,600
	<u>\$ 485,520</u>	<u>\$ 28,915</u>	<u>\$ 7,925,750</u>	<u>\$ 1,815,628</u>

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017

NOTE 5: LONG TERM DEBT - continued

Changes in long-term liabilities for the year ended April 30, 2017 are summarized as follows:

	Balance May 1, 2016	Transfers, Issues or, Additions	Transfers, Payments or Expenditures	Balance April 30, 2017	Due Within One Year
Governmental Activities:					
Capital Leases	\$ 299,653	\$	\$ (152,031)	\$ 147,622	\$ 121,401
Notes Payable	441,408	149,756	(105,644)	485,520	154,120
Net Pension Liability	232,433		(81,595)	150,838	
Compensated Absences	73,378	5,494		78,872	
Landfill Post Closure	735,822	7,359		743,181	
Total Governmental Activities	\$ 1,782,694	\$ 162,609	\$ (339,270)	\$ 1,606,033	\$ 275,521
Business-Type Activities					
Certificates of Obligation	\$ 2,690,000	\$	\$ (190,000)	\$ 2,500,000	\$ 195,000
General Obligation Bonds	5,390,000		(465,000)	4,925,000	475,000
Unamortized Debt Premium	107,640		(9,033)	98,607	9,033
Tax Notes	690,000		(225,000)	465,000	230,000
Capital Lease	149,919		(72,436)	77,483	77,483
Notes Payable		49,500	(13,750)	35,750	16,500
Net Pension Liability	90,391		(31,731)	58,660	
Compensated Absences	12,885		(1,566)	11,319	
Total Business-Type Activities	\$ 9,130,835	\$ 49,500	\$ (1,008,516)	\$ 8,171,819	\$ 1,003,016

Certificates of Obligation

Combination Tax and Surplus Revenue Certificates of Obligation, Series 2013, constitutes a direct obligation of the City payable from and secured by a continuing ad valorem tax levied against all taxable property located within the City and from a pledge of the surplus net revenues of the City's waterworks and sewer system that remain after the payment of all maintenance and operations expenses thereof, and all debt service, reserve and other requirements in connection with all of the City's revenue obligations. Proceeds from the sale of the Certificates was used for the improvement and extension of the System, consisting of construction of improvements to the City's water and wastewater distribution and collection systems, construction of waste water treatment plan improvements, drilling new water wells, and construction of water storage facilities.

General Obligation Refunding Bonds

The 2012 General Obligation bonds were issued to refund the 2000, 200A, and the 2007 Certificates of Obligation. The bonds are direct obligations of the city and are payable from and secured by an annual ad valorem tax levied, within the limits prescribed by law, against all taxable property located within the City. The City intends to pay the Bonds from the net revenues of its Water and Sewer System

The 2014 General Obligation Refunding bonds were issued to refund the 2004 Certificates of Obligation. The bonds are direct obligations of the city and are payable from and secured by an annual ad valorem tax levied, within the limits prescribed by law, against all taxable property located within the City. The City intends to pay the bonds from net revenues of its Water and Sewer System as well as property tax revenue.

Tax Notes

Proceeds from the sale of the Notes were used to construct improvements to the City's water and sewer facilities, including for the construction of an elevated water tower, development of water wells, water/sewer line upgrades, and sewer treatment plant upgrades. The Notes are payable from and secured by a continuing ad valorem tax levied, within the prescribed by law, against all taxable property located within the City. The City intends to pay this obligation from the net revenues of its Water and Sewer System, but the City has not secured payment of the Notes from any source other than the pledged tax revenues.

CITY OF COLORADO CITY, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017**

NOTE 5: LONG TERM DEBT - continued

Notes Payable

The City entered into a contract with First Financial Bank for the purchase of two sanitation trucks and dumpsters. The note is payable from ad valorem taxes and other revenues and funds lawfully available. To the extent permitted by law, the City pledges its maintenance and operations tax as security for this obligation.

The city entered into a contract with Debby Guelker to purchase real property. The note is payable from budgeted funds in the general fund.

Capital Lease Obligations

The City is obligated under certain leases accounted for capital leases. Assets under capital leases totaled \$707,424 in the governmental funds and \$826,159 in the enterprise funds at April 30, 2017. Leases are for a water metering system, equipment at the City landfill and an asphalt zipper for the street department. All capital lease payments have been made as of April 30, 2017. Assets purchased with capital leases are depreciated with all other City capital assets. The general fund makes the payments on the landfill and street equipment and the water fund make the payments on the water meter system debt.

Landfill Closure and Post-Closure Care Costs

Federal and state laws and regulations require the placement of a final cover on Landfills when they stop accepting waste, and the performance of certain maintenance and monitoring functions at the site for thirty years after closure.

The City owns a landfill site of approximately 160 acres, which is currently under permit with Texas Commission on Environment Quality (TCEQ). This site was converted to a type IV solid waste landfill. The post-closure care costs are the responsibility of the City. Although those costs will be paid only after the date the landfill stops accepting waste, the City reports an estimate of these costs as a liability in the general long-term debt account group.

These amounts as based on what it would cost to perform all post-closure costs in fiscal year 2015-2016. Actual costs may differ from the estimated amount due to inflation and changes in technology and/or applicable laws and regulations. There is estimated to be about 8 year life in the opened landfill site.

Discretely Presented Component Units

On September 10, 2015, the Colorado City Volunteer Fire Department negotiated a commercial loan agreement of \$13,000 for equipment improvements. The note was repaid in August 2016 along with interest at 3.25 percent.

NOTE 6: TRANSFERS

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, and 3) move unrestricted enterprise fund revenue to financial various programs that the government must account for in other funds in accordance with budgetary authorizations.

In the year ended April 30, 2017, the city made the following transfers:

General Fund	\$ 423,630	\$ -
Non-Major Governmental Fund	171,840	-
Major Business-Type Fund	-	595,470
	<u>\$ 595,470</u>	<u>\$ 595,470</u>

CITY OF COLORADO CITY, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017**

NOTE 7: 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, injuries to employees, and natural disasters. To manage these risks, the City obtains general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage along with employee health insurance and workers compensation. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

NOTE 8: 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 9: PENSION PLAN

A. Plan Description

The City of Colorado City participates as one of 872 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.

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.

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Employee deposit rate:	6.0%
Employer deposit rate (2015)	8.18%
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)	70% of CPI Repeating

CITY OF COLORADO CITY, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017**

NOTE 9: PENSION PLAN - continued

Employees covered by benefit terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to but not yet receiving benefits	45
Active employees	<u>41</u>
Total	111

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 Comanche were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Colorado City were 8.18% and 9.13% in calendar years 2016 and 2017 respectively. The City's contributions to TMRS for the year ended April 30, 2017, were \$123,713, and were equal to the required contributions.

D. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

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 Tables with Blue Collar Adjustment, 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, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. 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.

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017

NOTE 9: PENSION PLAN - continued

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 assets 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 area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 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%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.750%. 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 12/31/2015	\$ 5,252,616	\$ 4,929,792	\$ 322,824
Changes for the year:			
Service cost	211,235		211,235
Interest	353,852		353,852
Change of benefit terms			
Difference between expected and actual experience	(140,037)		(140,037)
Changes of assumptions			
Contributions – employer		120,495	(120,495)
Contributions – employee		88,383	(88,383)
Net Investment Income		333,464	(333,464)
Benefit Payments, including refunds of employee contributions	(231,951)	(231,951)	
Administrative expense		(3,763)	3,763
Other changes		(203)	203
Net Changes	193,099	306,425	(113,326)
Balance 12/31/2016	\$ 5,445,715	\$ 5,236,217	\$ 209,498

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017

NOTE 9: PENSION PLAN - continued

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	\$ 944,315	\$ 209,498	\$ (390,867)

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 April 30, 2017, the City recognized pension expense of \$163,969.

At April 30, 2017, 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		\$ 99,204
Changes in actuarial assumptions	\$ 11,012	
Difference between projected and actual investment earnings	202,198	
Contributions subsequent to the measurement date	39,937	
Total	\$ 253,147	\$ 99,204

\$39,937 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 April 30, 2018. 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:	
2017	\$ 15,942
2018	30,756
2019	67,447
2020	(139)
2021	0
Thereafter	0
Total	\$ 114,006

CITY OF COLORADO CITY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2017

NOTE 10: SUPPLEMENTAL DEATH BENEFITS FUND

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB. The City offered supplemental death benefits to active employees and retirees during plan years 2015 and 2016.

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

The City’s contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were \$4,516, \$4,091 and \$3,712, respectively which equaled the required contributions each year.

Schedule of Contribution Rates:
(Retiree-only portion of the rate)

<u>Plan\ Calendar Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percent of ARC Contributed</u>
2014	0.10%	0.10%	100%
2015	0.10%	0.10%	100%
2016	0.10%	0.10%	100%
2017	0.12%	0.12%	100%

NOTE 11: PRIOR PERIOD ADJUSTMENT

Prior period adjustments were made to beginning fund balance in both the government wide and the fund financial statements. The adjustments were corrections to prepaid expenses, accrued payroll, customer deposits, and corrections to capital assets. The follow schedule details the changes in the net position of the entity in the government wide financial statements.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Adjustment to accrued payroll	\$ (51,409)	\$ (16,839)
Adjustment to prepaid expenses	34,547	13,730
Adjustment to customer deposits		2,680
Adjustment to capital assets	(11,121)	
	<u>\$ (27,983)</u>	<u>\$ (429)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COLORADO CITY, TEXAS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND
YEAR ENDED APRIL 30, 2017

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Amended Budget	Actual	
REVENUE:				
Taxes:				
Property	\$ 550,500	\$ 550,500	\$ 570,132	\$ 19,632
Sales	770,000	724,750	608,863	(115,887)
Franchise tax	345,000	345,000	291,960	(53,040)
Charges for services	782,800	782,800	766,746	(16,054)
Insurance recovery	10,000	10,000	3,704	(6,296)
Fines	97,450	97,450	45,477	(51,973)
Licenses and permits	24,100	24,100	17,352	(6,748)
Intergovernmental	20,000	20,000	8,785	(11,215)
Investment earnings	1,600	1,600	4,134	2,534
Contributions and donations	1,700	1,700	89,587	87,887
Miscellaneous	25,050	25,050	33,748	8,698
Total Revenues	<u>2,628,200</u>	<u>2,582,950</u>	<u>2,440,488</u>	<u>(142,462)</u>
EXPENDITURES:				
Current:				
General government:				
City council	66,920	83,320	89,923	(6,603)
Court	70,780	70,780	23,794	46,986
Legal	50,000	60,000	52,583	7,417
City Hall/Finance	250,790	250,790	242,204	8,586
Non-departmental	201,880	201,880	74,371	127,509
Public safety:				
Police department	748,770	898,570	870,532	28,038
Fire department	103,860	129,360	207,553	(78,193)
Code enforcement	147,740	98,740	79,431	19,309
Public works:				
Streets and signals	510,890	490,890	449,765	41,125
Cemetery	24,390	24,390	24,365	25
Animal control	46,890	55,090	54,938	152
Culture and recreation:				
Civic Center	69,350	58,050	49,149	8,901
Swimming Pool	73,850	67,850	62,600	5,250
Parks	45,290	57,640	49,497	8,143
Day Care	6,900	6,900	6,729	171
Community development	68,900	72,750	70,517	2,233
Sanitation:				
Solid waste	251,300	241,300	248,389	(7,089)
Sanitation collection	289,090	279,090	103,769	175,321
Airport	53,000	23,000	19,039	3,961
Debt Service:				
Principal	150,830	150,830	152,031	(1,201)
Interest	8,000	8,000	6,410	1,590
Total expenditures	<u>3,239,420</u>	<u>3,329,220</u>	<u>2,937,589</u>	<u>391,631</u>

CITY OF COLORADO CITY, TEXAS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND
YEAR ENDED APRIL 30, 2017

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Amended Budget	Actual	
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(611,220)	(746,270)	(497,101)	249,169
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt		149,800	149,756	(44)
Sale of assets	1,000	1,000	1,100	100
Transfers in	610,220	595,470	423,630	(171,840)
Total Other Financing Sources (Uses)	611,220	746,270	574,486	(171,784)
CHANGE IN FUND BALANCE			77,385	77,385
FUND BALANCES AT BEGINNING OF YEAR	860,335	860,335	860,335	-
Adjustment to beginning fund balance	(16,862)	(16,862)	(16,862)	-
FUND BALANCES AT END OF YEAR	\$ 843,473	\$ 843,473	\$ 920,858	\$ 77,385

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

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 211,235	\$ 205,582
Interest (on the Total Pension Liability)	353,852	343,880
Changes of benefit terms	-	-
Difference between expected and actual experience	(140,037)	(47,593)
Change of Assumptions	-	48,342
Benefit payments, including refunds of employee contributions	<u>(231,951)</u>	<u>(214,741)</u>
Net Change in Total Pension Liability	193,099	335,470
Total Pension Liability - Beginning	<u>5,252,616</u>	<u>4,917,146</u>
Total Pension Liability - Ending (a)	<u>\$ 5,445,715</u>	<u>\$ 5,252,616</u>
 Plan Fiduciary Net Position		
Contributions - Employer	120,495	\$ 118,610
Contributions - Employee	88,383	91,709
Net Investment Income	333,464	7,279
Benefit payments, including refunds of employee contributions	(231,951)	(214,741)
Administrative Expense	(3,763)	(4,432)
Other	<u>(203)</u>	<u>(218)</u>
Net Change in Plan Fiduciary Net Position	306,425	(1,793)
Plan Fiduciary Net Position - Beginning	<u>4,929,792</u>	<u>4,931,585</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 5,236,217</u>	<u>\$ 4,929,792</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ 209,498</u>	<u>\$ 322,824</u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.15%	93.85%
 Covered Employee Payroll	\$ 1,473,047	\$ 1,528,490
 Net Pension Liability as a Percentage of Covered Employee Payroll	14.22%	21.12%

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

	2016	2017
Actuarially Determined Contribution	\$ 118,641	123,713
Contributions in relation to the actuarially determined contribution	118,641	123,713
Contributions deficiency (excess)	\$ -	-
Covered employee payroll	\$ 1,504,581	1,461,579
Contributions as a percentage of covered payroll	7.89%	8.46%

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	29 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 2010 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.