

ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended
September 30, 2015



Farmersville
DISCOVER A TEXAS TREASURE

ANNUAL FINANCIAL REPORT

of the

City of Farmersville, Texas

**For the Year Ended
September 30, 2015**

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City of Farmersville, Texas

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September 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

The City's 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 opinion

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, discretely presented component units, and the aggregate remaining fund information of the City as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note V.D and V.E to the financial statements, during 2015, the City adopted new accounting guidance Governmental Accounting Standard Board "GASB" Statement No. 68, entitled *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Correction of an Error

As discussed in Note V.E to the financial statements, beginning fund balance and net position has been restated to reflect a correction of an error in the 2014 financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension information and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America,

which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information, such as the combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

A handwritten signature in cursive script that reads "Brooks Cardiel, PLLC".

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
April 25, 2016

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

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City of Farmersville, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2015

As management of the City of Farmersville, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015.

Financial Highlights

- The City's total combined net position was \$9,199,590 at September 30, 2015. Of this, \$3,441,647 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$4,132,706, an increase of \$1,571,411.
- As of the end of the year, the unassigned fund balance of the general fund was \$1,133,721 or 38% of total general fund expenditures.
- The City had an overall increase in net position of \$210,639, which is due to revenues exceeding expenses that occurred in the current year.
- The City closed the year with a net pension liability of \$368,958.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are

City of Farmersville, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2015

reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, community development, library and civic center, and public works. The business-type activities of the City include a water, wastewater, electric and refuse operations.

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, 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 can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City of Farmersville, Texas maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and debt service fund, the General, Debt Service, Capital Projects, Chapparral Grant and Safe Routes School funds are considered to be major funds. Fund data for the remaining nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City of Farmersville, Texas adopts an annual appropriated budget for its general, debt service and utility funds. A budgetary comparison schedule has been provided to demonstrate compliance with the general fund budget and debt service fund.

City of Farmersville, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2015

Proprietary Funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment, electric and refuse operations. The proprietary fund financial statements provide separate information for the water, wastewater, electric and refuse funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* (RSI) concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pension and OPEB.

Government-Wide Financial Analysis

As noted previously, net position over time, may serve as a useful indicator of the City's financial position. For the City of Farmersville, Texas, assets exceed liabilities by \$9,199,590 as of year end.

The largest portion of the City's net position, \$5,556,922, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and utility systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2015			2014		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and other assets	\$ 4,477,347	\$ 3,128,735	\$ 7,606,082	\$ 3,445,569	\$ 3,221,331	\$ 6,666,900
Capital assets, net	7,264,121	5,241,483	12,505,604	7,169,637	4,183,968	11,353,605
Total Assets	11,741,468	8,370,218	20,111,686	10,615,206	7,405,299	18,020,505
Deferred Outflows	158,192	39,611	197,803	82,307	-	82,307
Other liabilities	861,692	673,279	1,534,971	859,647	629,620	1,489,267
Long-term liabilities	9,048,889	477,713	9,526,602	6,919,440	705,154	7,624,594
Total Liabilities	9,910,581	1,150,992	11,061,573	7,779,087	1,334,774	9,113,861
Deferred Inflows	36,182	12,144	48,326	-	-	-
Net Position:						
Net investment in capital assets	820,439	4,736,483	5,556,922	352,927	3,556,165	3,909,092
Restricted	201,021	-	201,021	185,957	-	185,957
Unrestricted	931,437	2,510,210	3,441,647	2,379,542	2,514,360	4,893,902
Total Net Position	\$ 1,952,897	\$ 7,246,693	\$ 9,199,590	\$ 2,918,426	\$ 6,070,525	\$ 8,988,951

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

Statement of Activities:

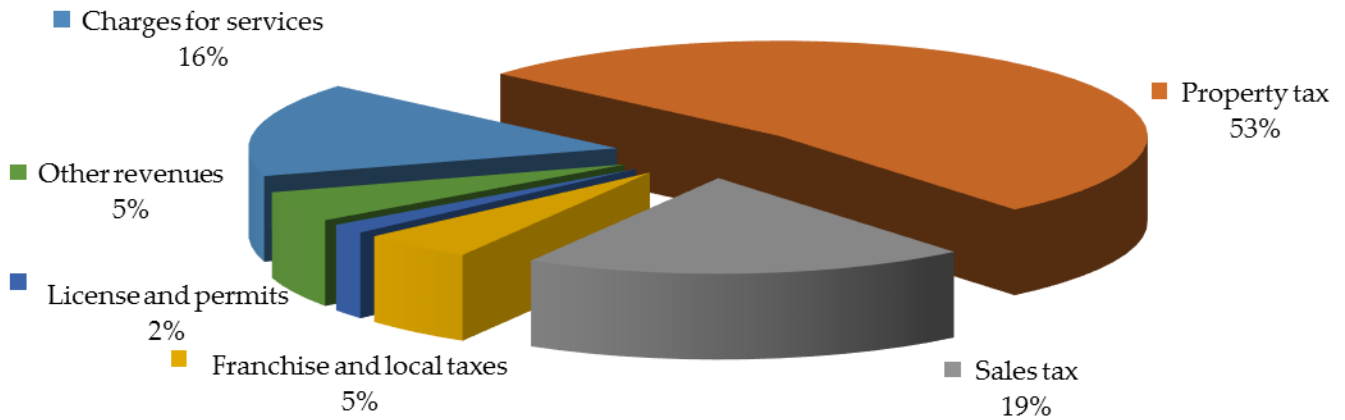
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2015			For the Year Ended September 30, 2014		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 378,053	\$ 6,369,376	\$ 6,747,429	\$ 395,332	\$ 4,071,990	\$ 4,467,322
Grants and contributions	61,282	-	61,282	590,886	872,446	1,463,332
General revenues:						
Property tax	1,292,941	-	1,292,941	1,066,358	-	1,066,358
Sales tax	458,600	-	458,600	439,839	-	439,839
Franchise and local taxes	116,446	-	116,446	101,864	-	101,864
License and permits	39,217	-	39,217	53,484	-	53,484
Investment income	1,688	900	2,588	949	797	1,746
Other revenues	120,998	(7,091)	113,907	104,062	-	104,062
Total Revenues	2,469,225	6,363,185	8,832,410	2,752,774	4,945,233	7,698,007
Expenses						
General government	473,794	-	473,794	488,121	-	488,121
Public safety	1,523,010	-	1,523,010	1,468,033	-	1,468,033
Public works	1,043,098	-	1,043,098	890,780	-	890,780
Community development	274,197	-	274,197	271,804	-	271,804
Library and civic center	168,401	-	168,401	169,782	-	169,782
Interest and fiscal charges	276,817	-	276,817	238,896	-	238,896
Water	-	1,208,881	1,208,881	-	1,090,940	1,090,940
Wastewater	-	576,748	576,748	-	513,384	513,384
Electric	-	2,700,580	2,700,580	-	1,630,158	1,630,158
Refuse	-	376,245	376,245	-	388,833	388,833
Total Expenses	3,759,317	4,862,454	8,621,771	3,527,416	3,623,315	7,150,731
Change in Net Position						
Before Transfers	(1,290,092)	1,500,731	210,639	(774,642)	1,321,918	547,276
Transfers in (out)	324,563	(324,563)	-	1,059,565	(1,059,565)	-
Total	324,563	(324,563)	-	1,059,565	(1,059,565)	-
Change in Net Position	(965,529)	1,176,168	210,639	284,923	262,353	547,276
Beginning Net Position	2,918,426	6,070,525	8,988,951	2,633,503	5,808,172	8,441,675
Ending Net Position	\$ 1,952,897	\$ 7,246,693	\$ 9,199,590	\$ 2,918,426	\$ 6,070,525	\$ 8,988,951

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

Governmental Activities - Revenues

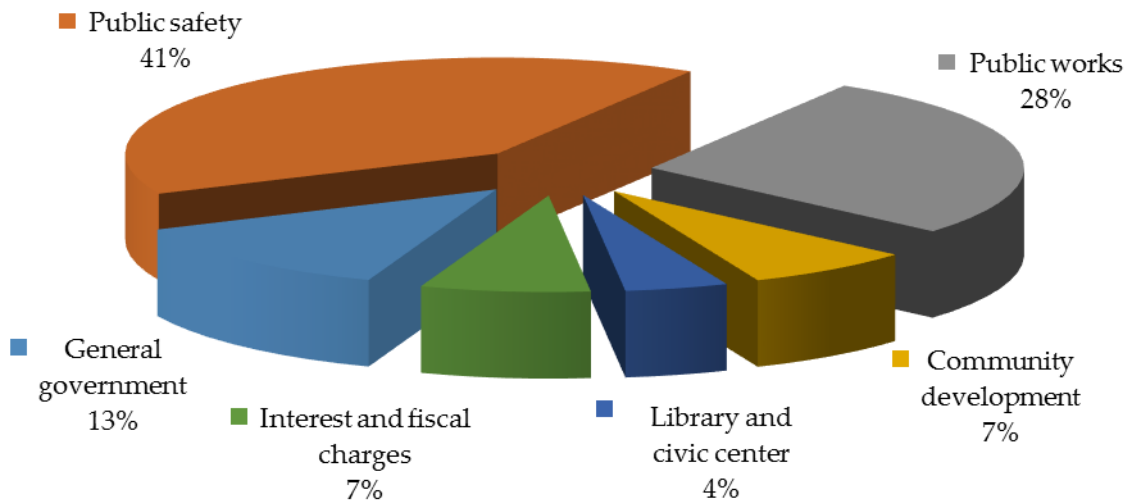


For the year ended September 30, 2015, revenues from governmental activities totaled \$2,469,225. Property tax sales tax, and charges for services are the City's largest revenue sources. Property tax increased \$226,583 or 18% due to economic growth and increasing appraisal values. Franchise taxes increased \$14,582 or 13% due to additional telecommunication company activity in the City. License and permits decreased \$14,267 or 36%, which was expected and budgeted for as there was an increase in the prior year. Other revenues increased \$16,936 or 15% due to minor increases in various miscellaneous revenue accounts.

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses

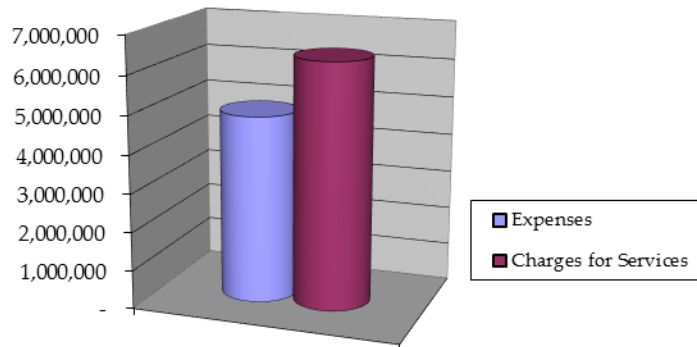


For the year ended September 30, 2015, expenses for governmental activities totaled \$3,759,317. This represents an increase of \$231,901 or 3% from the prior year. The City's largest functional expenses are public safety of \$1,523,010 and public works of \$1,043,098. Public works increased by \$152,318 or 15% due to additional repairs and maintenance costs. Interest and fiscal charges increased by \$37,921 or 14% primarily due to the issuance of the refunding bond.

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2015, charges for services by business-type activities totaled \$6,369,376. This is an increase of \$2,297,386, or 56%, from the previous year. This increase is primarily due to this being the first year that the City took over electric services, adding a substantial increase in revenue. In addition there was an increase in water usage which caused an overall increase in water and wastewater revenue.

Total expenses increased \$1,239,139 or 34%. This is primarily due to the added electric services consisting of maintenance and utility costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the year the general fund reflected a total fund balance of \$1,140,052. The general fund demonstrated an increase of \$101,213. During the year the general fund received \$2,339 less revenue than budgeted, offset by experiencing \$227,128 less costs than planned, resulting in a positive budget variance of \$224,789 before transfers.

There was an overall increase in governmental fund balance of \$1,571,411. This is primarily due to the proceeds from the issuance of a refunding bond and general obligation bond.

City of Farmersville, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$171,733 in the general fund. Total budgeted revenues were \$2,339 less than budgeted, expenditures were \$227,128 less than budgeted, and other financing sources and uses have a negative budget variance of \$53,056.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$7,264,121 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$5,241,483 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- The addition of three public safety vehicles totaling \$158,152
- The addition of equipment for \$54,204
- The addition of construction to infrastructure totaling \$1,763,947
- The transfer of assets from governmental to business-type funds in the amount of \$908,747

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

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$8,829,734. During the year, the City had a net reduction in bonds of \$330,000 and a refunding of \$2,150,000. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Farmersville, Texas and improving services provided to their public citizens. The City is budgeting for growth in the upcoming year.

City of Farmersville, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2015

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Farmersville, Texas's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Manager, 205 S. Main, Farmersville, Texas 75442, (972) 782-6151.

FINANCIAL STATEMENTS

City of Farmersville, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 4,091,426	\$ 2,307,653	\$ 6,399,079
Receivables, net	276,536	924,136	1,200,672
Internal balances	103,054	(103,054)	-
Prepaid items	6,331	-	6,331
Total Current Assets	4,477,347	3,128,735	7,606,082
Capital assets:			
Non-depreciable	2,015,693	289,683	2,305,376
Net depreciable capital assets	5,248,428	4,951,800	10,200,228
	7,264,121	5,241,483	12,505,604
Total Assets	11,741,468	8,370,218	20,111,686
<u>Deferred Outflows of Resources</u>			
Pension contributions	87,156	29,252	116,408
Pension investment earnings	30,867	10,359	41,226
Deferred charge on refunding	40,169	-	40,169
Total Deferred Outflows of Resources	158,192	39,611	197,803

See Notes to Financial Statements.

Component Units	
Economic Development Corporation	Community Development Corporation
\$ 949,928	\$ 211,795
42,031	42,031
-	-
-	-
<u>991,959</u>	<u>253,826</u>
-	182,820
-	-
<u>-</u>	<u>182,820</u>
<u>991,959</u>	<u>436,646</u>
-	-
-	-
-	-
<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>

City of Farmersville, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	204,123	242,898	447,021
Accrued liabilities	11,926	2,803	14,729
Accrued interest payable	36,631	-	36,631
Customer deposits	-	307,578	307,578
Current portion of long-term debt	609,012	120,000	729,012
	<u>861,692</u>	<u>673,279</u>	<u>1,534,971</u>
Noncurrent liabilities:			
Long-term debt	8,772,644	385,000	9,157,644
Net pension liability	276,245	92,713	368,958
	<u>9,048,889</u>	<u>477,713</u>	<u>9,526,602</u>
Total Liabilities	<u>9,910,581</u>	<u>1,150,992</u>	<u>11,061,573</u>
<u>Deferred Inflows of Resources</u>			
Pension (gains) losses	36,182	12,144	48,326
Total Deferred Inflows of Resources	<u>36,182</u>	<u>12,144</u>	<u>48,326</u>
<u>Net Position</u>			
Net investment in capital assets	820,439	4,736,483	5,556,922
Restricted for:			
Debt service	141,136	-	141,136
Library	1,809	-	1,809
Municipal court	18,573	-	18,573
Public safety	39,503	-	39,503
Community development	-	-	-
Unrestricted	931,437	2,510,210	3,441,647
Total Net Position	<u>\$ 1,952,897</u>	<u>\$ 7,246,693</u>	<u>\$ 9,199,590</u>

See Notes to Financial Statements.

Component Units	
Economic Development Corporation	Community Development Corporation
-	960
-	-
-	1,598
-	-
-	12,856
-	15,414
-	96,820
-	-
-	96,820
-	112,234
-	-
-	-
-	-
-	-
-	-
991,959	324,412
-	-
<u>\$ 991,959</u>	<u>\$ 324,412</u>

City of Farmersville, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 473,794	\$ 277,364	\$ 61,282	\$ -
Municipal court	186,045	-	-	-
Library and civic center	168,401	-	-	-
Public safety	1,336,965	100,689	-	-
Public works	1,043,098	-	-	-
Community development	274,197	-	-	-
Interest and fiscal charges	276,817	-	-	-
Total Governmental Activities	<u>3,759,317</u>	<u>378,053</u>	<u>61,282</u>	<u>-</u>
Business-Type Activities				
Water	1,208,881	1,091,140	-	-
Wastewater	576,748	947,218	-	-
Electric	2,700,580	3,883,972	-	-
Refuse	376,245	447,046	-	-
Total Business-Type Activities	<u>4,862,454</u>	<u>6,369,376</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 8,621,771</u>	<u>\$ 6,747,429</u>	<u>\$ 61,282</u>	<u>\$ -</u>
Component Units				
Economic Development Corporation	184,465	-	-	-
Community Development Corporation	242,208	-	-	-
Total Component Units	<u>\$ 426,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General Revenues:				
Taxes				
Property tax				
Sales tax				
Franchise and local taxes				
License and permits				
Investment income				
Other revenues				
Transfers				
Transfer of assets				
Total General Revenues and Transfers				
Change in Net Position				
Beginning Net Position				
Ending Net Position				

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position			Componet Units	
Primary Government			Economic	Community
Governmental	Business-Type	Total	Development	Development
Activities	Activities		Corporation	Corporation
\$ (135,148)	\$ -	\$ (135,148)	\$ -	\$ -
(186,045)	-	(186,045)	-	-
(168,401)	-	(168,401)	-	-
(1,236,276)	-	(1,236,276)	-	-
(1,043,098)	-	(1,043,098)	-	-
(274,197)	-	(274,197)	-	-
(276,817)	-	(276,817)	-	-
<u>(3,319,982)</u>	<u>-</u>	<u>(3,319,982)</u>	<u>-</u>	<u>-</u>
-	(117,741)	(117,741)	-	-
-	370,470	370,470	-	-
-	1,183,392	1,183,392	-	-
-	70,801	70,801	-	-
<u>-</u>	<u>1,506,922</u>	<u>1,506,922</u>	<u>-</u>	<u>-</u>
<u>(3,319,982)</u>	<u>1,506,922</u>	<u>(1,813,060)</u>	<u>-</u>	<u>-</u>
-	-	-	(184,465)	-
-	-	-	-	(242,208)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(184,465)</u>	<u>(242,208)</u>
1,292,941	-	1,292,941	-	-
458,600	-	458,600	229,300	229,300
116,446	-	116,446	-	-
39,217	-	39,217	-	-
1,688	900	2,588	1,260	96
120,998	(7,091)	113,907	-	15,128
1,233,310	(1,233,310)	-	(16,603)	16,603
(908,747)	908,747	-	-	-
<u>2,354,453</u>	<u>(330,754)</u>	<u>2,023,699</u>	<u>213,957</u>	<u>261,127</u>
(965,529)	1,176,168	210,639	29,492	18,919
2,918,426	6,070,525	8,988,951	962,467	305,493
<u>\$ 1,952,897</u>	<u>\$ 7,246,693</u>	<u>\$ 9,199,590</u>	<u>\$ 991,959</u>	<u>\$ 324,412</u>

City of Farmersville, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2015

	General Fund	Debt Service Fund	Capital Projects Fund	Chapparral Grant Fund
<u>Assets</u>				
Cash and cash equivalents	\$ 884,696	\$ 129,425	\$ 2,954,680	\$ -
Receivables, net				
Property taxes	88,375	40,217	-	-
Sales tax	84,061	-	-	-
Franchise taxes	31,050	-	-	-
Other receivables	15,712	-	-	-
Due from other funds	293,473	11,711	-	-
Prepays	6,331	-	-	-
Total Assets	\$ 1,403,698	\$ 181,353	\$ 2,954,680	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 163,345	\$ -	\$ 40,518	\$ -
Accrued liabilities	11,926	-	-	-
Due to other funds	-	-	11,711	126,902
Total Liabilities	175,271	-	52,229	126,902
<u>Deferred Inflows of Resources</u>				
Unavailable revenue -				
property taxes	88,375	40,217	-	-
Total Deferred Inflows	88,375	40,217	-	-
<u>Fund Balances</u>				
Nonspendable:				
Prepaid items	6,331	-	-	-
Restricted for:				
Debt service	-	141,136	-	-
Capital projects	-	-	2,902,451	-
Library	-	-	-	-
Municipal court	-	-	-	-
Public safety	-	-	-	-
Committed for:				
Other purposes	-	-	-	-
Unassigned	1,133,721	-	-	(126,902)
Total Fund Balances	1,140,052	141,136	2,902,451	(126,902)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,403,698	\$ 181,353	\$ 2,954,680	\$ -

See Notes to Financial Statements.

Safe Routes School Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 122,625	\$ 4,091,426
-	-	128,592
-	-	84,061
-	-	31,050
-	17,121	32,833
-	103,054	408,238
-	-	6,331
<u>\$ -</u>	<u>\$ 242,800</u>	<u>\$ 4,782,531</u>
\$ -	\$ 260	\$ 204,123
-	-	11,926
166,571	-	305,184
<u>166,571</u>	<u>260</u>	<u>521,233</u>
-	-	128,592
-	-	128,592
-	-	6,331
-	-	141,136
-	-	2,902,451
-	1,809	1,809
-	18,573	18,573
-	39,503	39,503
-	182,655	182,655
(166,571)	-	840,248
<u>(166,571)</u>	<u>242,540</u>	<u>4,132,706</u>
<u>\$ -</u>	<u>\$ 242,800</u>	<u>\$ 4,782,531</u>

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City of Farmersville, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2015

Fund Balances - Total Governmental Funds	\$	4,132,706
 Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - non-depreciable		2,015,693
Capital assets - net depreciable		5,248,428
 Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
Property tax receivable		128,592
 Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/expenditure) until then.		
Pension contributions		87,156
Pension investment earnings		30,867
Deferred charge on refunding		40,169
 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.		
Pension losses on investments		(36,182)
 Some liabilities, including bonds payable and deferred charges are not reported as liabilities in the governmental funds.		
Accrued interest		(36,631)
Premiums on bonds payable		(439,903)
Non-current liabilities due in one year		(609,012)
Non-current liabilities due in more than one year		(8,332,741)
Net pension liability		(276,245)
Net Position of Governmental Activities	\$	1,952,897

See Notes to Financial Statements.

City of Farmersville, Texas

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

For the Year Ended September 30, 2015

	General Fund	Debt Service Fund	Capital Projects Fund	Chapparral Grant Fund
<u>Revenues</u>				
Property tax	\$ 697,405	\$ 514,802	\$ -	\$ -
Sales tax	458,600	-	-	-
Franchise and local taxes	116,446	-	-	-
License and permits	39,217	-	-	-
Charges for services	147,573	-	-	-
Fines and forfeitures	119,457	-	-	-
Intergovernmental	100,689	-	-	-
Donations and contributions	-	-	-	61,100
Investment income	873	209	606	-
Other revenues	96,579	-	6,134	-
Total Revenues	1,776,839	515,011	6,740	61,100
<u>Expenditures</u>				
Current:				
Mayor and city council	29,826	-	-	-
Administration	520,562	-	-	-
Library and civic center	162,958	-	-	-
Municipal court	179,397	-	-	-
Police	978,491	-	-	-
Fire and EMS	321,917	-	-	-
Public works	684,300	-	-	-
Culture and recreation	-	-	-	248,121
Debt service:				
Principal	95,103	330,000	-	-
Interest and fiscal charges	14,116	206,189	97,407	-
Capital outlay	-	-	1,381,904	-
Total Expenditures	2,986,670	536,189	1,479,311	248,121
Revenues Over (Under) Expenditures	(1,209,831)	(21,178)	(1,472,571)	(187,021)
<u>Other Financing Sources (Uses)</u>				
Transfers in	1,237,925	-	-	-
Transfers (out)	-	(1,500)	-	-
Payment to refunded bond escrow	-	-	(2,194,409)	-
Premium on debt issuance	-	-	430,411	-
Proceeds from debt issuance	73,119	-	4,855,000	-
Total Other Financing Sources (Uses)	1,311,044	(1,500)	3,091,002	-
Net Change in Fund Balances	101,213	(22,678)	1,618,431	(187,021)
Beginning fund balances	1,038,839	163,814	1,284,020	60,119
Ending Fund Balances	\$ 1,140,052	\$ 141,136	\$ 2,902,451	\$ (126,902)

See Notes to Financial Statements.

Safe Routes School Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 52,322	\$ 1,264,529
-	-	458,600
-	-	116,446
-	-	39,217
-	-	147,573
-	10,334	129,791
-	-	100,689
-	182	61,282
-	-	1,688
-	18,285	120,998
-	81,123	2,440,813
-	-	29,826
-	-	520,562
-	-	162,958
-	3,232	182,629
12,767	543	991,801
-	-	321,917
-	-	684,300
-	-	248,121
-	-	425,103
-	-	317,712
-	-	1,381,904
12,767	3,775	5,266,833
(12,767)	77,348	(2,826,020)
4,599	-	1,242,524
-	(7,714)	(9,214)
-	-	(2,194,409)
-	-	430,411
-	-	4,928,119
4,599	(7,714)	4,397,431
(8,168)	69,634	1,571,411
(158,403)	172,906	2,561,295
\$ (166,571)	\$ 242,540	\$ 4,132,706

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City of Farmersville, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

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

Net changes in fund balances - total governmental funds	\$	1,571,411
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		1,529,374
Depreciation expense		(513,991)
Net disposal of capital asset		(12,152)
Transfer of assets to business-type activities		(908,747)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		28,412
--	--	--------

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

Compensated absences		(6,135)
Accrued interest		(7,148)
Pension expense		44,422

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Refunding bond issuance		(4,855,000)
Bond refunded		2,150,000
Issuance of notes payable		(73,119)
Issuance and amortization of deferred charges on refunding		34,997
Issuance and amortization of debt premium		(372,956)
Principal payments		425,103

Change in Net Position of Governmental Activities	\$	(965,529)
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See Notes to Financial Statements.

City of Farmersville, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2015

	Water Fund	Wastewater Fund	Electric Utility	Nonmajor Refuse Utility
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,192,654	\$ 362,197	\$ 562,248	\$ 190,554
Accounts and other receivables	169,699	116,728	580,480	57,229
Due from other funds	-	307,334	-	-
Total Current Assets	1,362,353	786,259	1,142,728	247,783
Noncurrent Assets				
Capital assets:				
Non-depreciable	65,285	-	224,398	-
Net depreciable capital assets	3,489,805	776,455	685,540	-
Total Noncurrent Assets	3,555,090	776,455	909,938	-
Total Assets	4,917,443	1,562,714	2,052,666	247,783
Deferred Outflows of Resources				
Pension contributions	9,129	-	20,123	-
Pension investment earnings	3,233	-	7,126	-
Total Deferred Outflows of Resources	12,362	-	27,249	-
Liabilities				
Current Liabilities				
Accounts payable	77,397	17,301	89,657	58,543
Accrued liabilities	-	-	2,803	-
Customer deposits	79,246	-	228,332	-
Due to other funds	395,327	-	15,061	-
Current portion of long-term debt	-	-	120,000	-
Total Current Liabilities	551,970	17,301	455,853	58,543
Noncurrent Liabilities				
Long-term debt	-	-	385,000	-
Net pension liability	28,935	-	63,778	-
Total Liabilities	580,905	17,301	904,631	58,543
Deferred Inflows of Resources				
Pension (gains) losses	3,790	-	8,354	-
Total Deferred Inflows of Resources	3,790	-	8,354	-
Net Position				
Net investment in capital assets	3,555,090	776,455	404,938	-
Unrestricted	790,020	768,958	761,992	189,240
Total Net Position	\$ 4,345,110	\$ 1,545,413	\$ 1,166,930	\$ 189,240

See Notes to Financial Statements.

**Total
Proprietary
Funds**

\$ 2,307,653
924,136
307,334

3,539,123

289,683
4,951,800

5,241,483

8,780,606

29,252
10,359

39,611

242,898
2,803
307,578
410,388
120,000

1,083,667

385,000
92,713

1,561,380

12,144

12,144

4,736,483
2,510,210

\$ 7,246,693

City of Farmersville, Texas

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

For the Year Ended September 30, 2015

	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Electric Utility</u>	<u>Nonmajor Refuse Utility</u>
<u>Operating Revenues</u>				
Utility sales	\$ 1,073,002	\$ 906,912	\$ 3,786,283	\$ 440,266
Service fees	14,799	18,268	97,689	6,780
Penalties and fees	3,339	-	-	-
Total Operating Revenues	1,091,140	925,180	3,883,972	447,046
<u>Operating Expenses</u>				
Personnel	270,238	89,354	431,613	-
Contract and professional services	37,109	47,229	42,099	367,081
Maintenance	97,390	321,281	124,143	-
Operations	38,907	28,182	1,931,190	6,455
Supplies	523,181	13,593	53,064	-
Miscellaneous	64,463	12,090	62,923	2,709
Depreciation	177,593	65,019	55,548	-
Total Operating Expenses	1,208,881	576,748	2,700,580	376,245
Operating Income (Loss)	(117,741)	348,432	1,183,392	70,801
<u>Nonoperating Revenues (Expenses)</u>				
Intergovernmental	-	22,038	-	-
Investment income	714	120	-	66
Interest expense	-	-	(7,091)	-
Total Nonoperating Revenues (Expenses)	714	22,158	(7,091)	66
Income (Loss) Before Transfers	(117,027)	370,590	1,176,301	70,867
Transfers (out)	(121,874)	(149,200)	(887,136)	(75,100)
Transfer of assets	908,747	-	-	-
Change in Net Position	669,846	221,390	289,165	(4,233)
Beginning net position	3,675,264	1,324,023	877,765	193,473
Ending Net Position	\$ 4,345,110	\$ 1,545,413	\$ 1,166,930	\$ 189,240

See Notes to Financial Statements.

**Total
Proprietary
Funds**

\$ 6,206,463
137,536
3,339

6,347,338

791,205
493,518
542,814
2,004,734
589,838
142,185
298,160

4,862,454

1,484,884

22,038
900
(7,091)

15,847

1,500,731

(1,233,310)
908,747

1,176,168

6,070,525

\$ 7,246,693

City of Farmersville, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2015

	Water Fund	Wastewater Fund	Electric Utility	Nonmajor Refuse Utility
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 1,065,173	\$ 896,630	\$ 3,928,766	\$ 441,674
Payments to employees	(274,890)	(89,354)	(441,869)	-
Payments to suppliers and contractors	(668,391)	(712,978)	(2,071,661)	(326,115)
Net Cash Provided by (Used for)				
Operating Activities	121,892	94,298	1,415,236	115,559
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfer (out)	(121,874)	(149,200)	(887,136)	(75,100)
Proceeds from grants	-	22,038	-	-
Net Cash (Provided by) Noncapital				
Financing Activities	(121,874)	(127,162)	(887,136)	(75,100)
<u>Cash Flows from Capital and Related Financing Activities</u>				
Purchases of capital assets	-	(36,579)	(410,350)	-
Principal paid on capital debt	-	-	(120,000)	-
Net Cash (Used for) Capital and Related				
Financing Activities	-	(36,579)	(530,350)	-
<u>Cash Flows from Investing Activities</u>				
Interest on investments	714	120	(7,091)	66
Net Cash Provided by Investing	714	120	(7,091)	66
Net Increase (Decrease) in Cash and Cash Equivalents	732	(69,323)	(9,341)	40,525
Beginning cash and cash equivalents	1,191,922	431,520	571,589	150,029
Ending Cash and Cash Equivalents	\$ 1,192,654	\$ 362,197	\$ 562,248	\$ 190,554

See Notes to Financial Statements.

**Total
Proprietary
Funds**

\$	6,332,243
	(806,113)
	(3,779,145)
	<u>1,746,985</u>
	(1,233,310)
	22,038
	<u>(1,211,272)</u>
	(446,929)
	(120,000)
	<u>(566,929)</u>
	(6,191)
	<u>(6,191)</u>
	(37,407)
	2,345,060
\$	<u><u>2,307,653</u></u>

City of Farmersville, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2015

	Water Fund	Wastewater Fund	Electric Utility	Nonmajor Refuse Utility
<u>Reconciliation of Operating</u>				
<u>Income (Loss) to Net Cash Provided by</u>				
<u>(Used for) Operating Activities</u>				
Operating Income (Loss)	\$ (117,741)	\$ 348,432	\$ 1,183,392	\$ 70,801
Adjustments to reconcile operating income (loss) to net cash provided by (used):				
Depreciation	177,593	65,019	55,548	-
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	(31,443)	(28,550)	(86,335)	(5,372)
Intergovernmental receivables	-	(307,334)	-	-
Deferred Outflows of Resources:				
Pension contributions	(9,129)	-	(20,123)	-
Investment experience	(3,233)	-	(7,126)	-
Increase (Decrease) in:				
Accounts payable and accrued liabilities	92,659	16,731	141,758	50,130
Customer deposits	5,476	-	131,129	-
Deferred Inflows of Resources:				
Actual experience vs. assumption	3,790	-	8,354	-
Net pension liability	3,920	-	8,639	-
Net Cash Provided by				
(Used for) Operating Activities	\$ 121,892	\$ 94,298	\$ 1,415,236	\$ 115,559

**Schedule of Non-Cash Capital
and Related Financing Activities:**

Capital contribution	\$ 908,747	\$ -	\$ -	\$ -
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See Notes to Financial Statements.

**Total
Proprietary
Funds**

\$ 1,484,884

298,160

(151,700)

(307,334)

(29,252)

(10,359)

301,278

136,605

12,144

12,559

\$ 1,746,985

\$ 908,747

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City of Farmersville, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Farmersville, Texas (the "City") was incorporated under the laws of the State of Texas on June 2, 1873.

The City operates under a "General Law" City which provides for a "Mayor-Council" form of government. All powers of the City shall be vested in an elective council, hereinafter referred to as the "Council," which shall enact local legislation, adopt budgets, determine policies, and appoint the City Attorney and the Judge of the Municipal Court. The City provides the following services as authorized by its charter: public safety, streets & roads, sanitation, water & sewer, electric, culture-recreation, public improvements and administrative services.

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

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

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

Discretely Presented Component Units

Economic Development Corporation – 4A

The Farmersville Economic Development Corporation (the “EDC”) was incorporated by the City under the Development Corporation Act of 1979, as amended, Article 5190.6 Vernon's Annotated Civil Statutes, Section 4B, as amended (the Act). The EDC serves all citizens of the City and is governed by a seven member board of directors appointed by the City Council. An Executive Director is appointed by the EDC seven member board to carry out the Board's administrative and policy initiatives. The purpose of the EDC is to promote economic development within the City and the State of Texas in order to enhance the employment and the public welfare for, and on behalf of, the City in a manner and purpose authorized by Section 4B of the Act. The EDC's financial statements are presented discretely as a part of the financial statements of the City. The EDC does not issue separate financial statements.

Community Development Corporation – 4B

The purpose of the City of Farmersville Community Development Corporation (the “CDC”) is to promote economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and to encourage employment and the public welfare of, for and on behalf of the City, and for parks, auditoriums, learning centers, open space improvements, athletic and exhibition facilities, and other related improvements and for maintenance and operating costs of publicly owned and operated projects by developing, implementing, providing, and financing projects. The CDC's financial statements are presented discretely as a part of the financial statements of the City. The CDC does not issue separate financial statements.

Blended Component Units

Tax Increment Financing Reinvestment Zone

The City created the Tax Increment Financing Reinvestment Zone Fund (the “TIRZ”) in December 2011 to encourage and accelerate planned development of a certain contiguous geographic area within its jurisdiction and extra-territorial jurisdiction. Of the five member Board of Directors three are appointed by the Farmersville City Council and two members shall be appointed by the County Commissioners Court of Collin County and serve for two-year staggered terms. The members of the Board are citizens of Farmersville. Any future debt obligations issued and backed by the TIF are to be repaid from property tax levies, based on the incremental increase in the real property values from the base year 2011.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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The TIF Board of Directors acts primarily in an advisory role to the City Council, who exercise the ultimate financial control over the recommendations of the TIF board, including its budget and expenditures. The financial information of the TIF is blended as a governmental fund into the primary government. Separate financial statements are not prepared.

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Requirements of the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations;
- Financial statements prepared using full accrual accounting for all of the City’s activities;
- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets**—This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the City as a whole. These statements include all 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.

City of Farmersville, Texas
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The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The government reports the following governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed and focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between its governmental fund assets and its liabilities and deferred inflows of resources as fund balance.

General Fund

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

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

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Capital Projects Fund

The capital projects fund is used to account for the expenditures of resources accumulated from the sale of bonds and related interest earnings, contributed capital or transfers from other funds, other than those recorded in the enterprise funds, for acquisition of capital facilities. The capital projects fund is considered a major fund for reporting purposes.

Chapparral Grant Fund

The Chapparral grant fund is used to account for the expenditures of resources accumulated from grants for the construction and maintenance of the trail, which is the westernmost leg of the regional Northeast Texas Trail System.

Safe Routes School Fund

The safe routes school fund is used to account for funds used to promote and encourage children in grade school to walk and bicycle to school, make walking to school a safer and more appealing transportation alternative, and facilitate the planning, development and implementation of projects and activities that will improve safety and reduce traffic, fuel consumption, and air pollution in the vicinity of schools.

Special Revenue Funds

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The proprietary fund types used by the City include enterprise funds.

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The government reports the following major enterprise funds:

Water

This fund is used to account for the provision of water services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Wastewater

This fund is used to account for the provision of wastewater services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water collection and treatment systems. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

This fund is used to account for the provision of electricity services to the residents of the City. Activities of the fund include administration, operations and maintenance of the electrical equipment. The fund also accounts for the accumulation of resources for and the payment of long-term debt, principal and interest. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Refuse

This fund is used to account for the provision of sanitation services to the residents of the City. Activities of the fund include administration activities to maintain the services. All costs are financed through charges to sanitation customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Measurement focus refers to what is being measured and basis of accounting refers to when transactions are recorded in the financial records and reported on the financial statements and relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and

City of Farmersville, Texas
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become measurable, and expenses in the accounting period in which they are incurred and become measurable. Proprietary fund equity consists of net position. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

All governmental funds and component units are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Estimates

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

E. Assets, liabilities, deferred inflows/outflows, and net position/fund balance

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are

City of Farmersville, Texas
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operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexSTAR, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

All trade receivables are shown net of any allowance for uncollectible amounts.

3. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

City of Farmersville, Texas
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4. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Equipment and vehicles	5-20 years
Infrastructure	15 to 100 years
Utility systems	10 to 40 years
Buildings and improvements	20-50 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

City of Farmersville, Texas
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An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

7. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. Fund Balance Flow Assumptions

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

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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9. Fund Balance Policies

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

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

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

10. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

Amounts of vested or accumulated sick leave and compensatory time that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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11. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

12. Pensions

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

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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F. Revenues and expenditures/expenses

1. Program revenues

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

2. Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds. Reconciling items have been presented on the balance sheet of governmental funds in the basic financial statements

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. A reconciliation has been presented in the basic financial statements.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, special revenue, and utility funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the function level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. One budget amendment was made during the year.

A. Expenditures Over Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control and as follows:

General Fund:		
Police		\$22,296
Principal		\$3,272
Debt Service Fund:		
Principal		\$204,334

The City has implemented procedures to ensure budgetary compliance. No expenditure can be made unless there is a budget available or an approved budget amendment has been submitted. Department head and management will review the budget variances on a regular basis and the budget will be amended if necessary.

B. Deficit Fund Equity

At September 30, 2015, the Chapparral Grant Fund has a deficit fund balance of \$126,902 and the Safe Routes School Fund has a deficit fund balance of \$166,571. The deficit balances will be eliminated in the future with transfers from other funds.

City of Farmersville, Texas
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IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2015, the primary government had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 250,000	0.14
Investment pools	3,541,976	0.14
Total fair value	\$ 3,791,976	
Portfolio weighted average maturity		0.14

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2015, the market values of pledged securities and FDIC exceeded bank balances.

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

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TexPool

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

TexStar

The TexStar Participant Services Local Government Investment Pool ("TexStar") is an external investment pool operated by First Southwest Asset Management, Inc. and is not SEC registered. The Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act provide for creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller has established an advisory board composed both of participants in TexStar and of other persons who do not have a business relationship with TexStar. The Advisory Board members review the investment policy and management fee structure. Standard & Poor's rates TexStar AAAM.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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B. Receivables

The following comprise receivable balances of the primary government at year end:

Governmental Funds

	General	Debt Service	Nonmajor Governmental	Total
Property taxes	\$ 88,375	\$ 40,217	\$ -	\$ 128,592
Sales tax	84,061	-	-	84,061
Franchise taxes	31,050	-	-	31,050
Other	15,712	-	17,121	32,833
	<u>\$ 219,198</u>	<u>\$ 40,217</u>	<u>\$ 17,121</u>	<u>\$ 276,536</u>

Enterprise Funds

	Water	Wastewater	Electric	Refuse	Total
Accounts	\$ 204,599	\$ 147,114	\$ 623,631	\$ 72,131	\$ 1,047,475
Other	3,810	-	-	386	4,196
Allowance	(38,710)	(30,386)	(43,151)	(15,288)	(127,535)
	<u>\$ 169,699</u>	<u>\$ 116,728</u>	<u>\$ 580,480</u>	<u>\$ 57,229</u>	<u>\$ 924,136</u>

Component Units

	Economic Development Corporation	Community Development Corporation
Sales tax	\$ 42,031	\$ 42,031
	<u>\$ 42,031</u>	<u>\$ 42,031</u>

City of Farmersville, Texas
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C. Capital Assets

The primary government's summary of changes in governmental activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 1,245,042	\$ -	\$ -	\$ 1,245,042
Construction in progress	2,290,473	1,159,612	(2,679,434)	770,651
Total capital assets not being depreciated	<u>3,535,515</u>	<u>1,159,612</u>	<u>(2,679,434)</u>	<u>2,015,693</u>
Capital assets, being depreciated:				
Buildings and improvements	1,863,657	-	-	1,863,657
Vehicles and equipment	2,167,466	158,152	(38,378)	2,287,240
Infrastructure	11,173,489	211,610	1,770,687	13,155,786
Total capital assets being depreciated	<u>15,204,612</u>	<u>369,762</u>	<u>1,732,309</u>	<u>17,306,683</u>
Less accumulated depreciation				
Buildings and improvements	(1,353,615)	(39,058)	-	(1,392,673)
Vehicles and equipment	(1,429,604)	(160,423)	26,226	(1,563,801)
Infrastructure	(8,787,271)	(314,510)	-	(9,101,781)
Total accumulated depreciation	<u>(11,570,490)</u>	<u>(513,991)</u>	<u>26,226</u>	<u>(12,058,255)</u>
Net capital assets being depreciated	<u>3,634,122</u>	<u>(144,229)</u>	<u>1,758,535</u>	<u>5,248,428</u>
Total Capital Assets	<u><u>\$ 7,169,637</u></u>	<u><u>\$ 1,015,383</u></u>	<u><u>\$ (920,899)</u></u>	<u><u>\$ 7,264,121</u></u>

Depreciation was charged to governmental functions as follows:

General and administrative	\$ 1,586
Library	3,482
Public safety	141,578
Public works	341,269
Community development	26,076
Total Governmental Activities Depreciation Expense	<u><u>\$ 513,991</u></u>

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 67,285	\$ -	\$ -	\$ 67,285
Construction in progress	45,865	392,725	(216,192)	222,398
Total capital assets not being depreciated	<u>113,150</u>	<u>392,725</u>	<u>(216,192)</u>	<u>289,683</u>
Capital assets, being depreciated:				
Buildings and improvements	15,000	-	216,192	231,192
Vehicles and equipment	1,107,076	54,204	-	1,161,280
Infrastructure	10,205,232	-	908,747	11,113,979
Total capital assets being depreciated	<u>11,327,308</u>	<u>54,204</u>	<u>1,124,939</u>	<u>12,506,451</u>
Less accumulated depreciation				
Buildings and improvements	(15,000)	-	-	(15,000)
Vehicles and equipment	(701,343)	(53,742)	-	(755,085)
Infrastructure	(6,540,148)	(244,418)	-	(6,784,566)
Total accumulated depreciation	<u>(7,256,491)</u>	<u>(298,160)</u>	<u>-</u>	<u>(7,554,651)</u>
Net capital assets being depreciated	<u>4,070,817</u>	<u>(243,956)</u>	<u>1,124,939</u>	<u>4,951,800</u>
Total Capital Assets	<u>\$ 4,183,967</u>	<u>\$ 148,769</u>	<u>\$ 908,747</u>	<u>\$ 5,241,483</u>

Depreciation was charged to business-type functions as follows:

Water	\$ 177,593
Wastewater	65,019
Electric	55,548
Total Business-Type Activities Depreciation Expense	<u>\$ 298,160</u>

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

D. Long-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 3,575,000	\$ 4,855,000	\$ (170,000)	\$ 8,260,000	\$ 280,000
Certificates of obligation	2,480,000	-	(2,310,000)	170,000	170,000
Premium	66,947	430,411	(57,455)	439,903	-
	<u>6,121,947</u>	<u>5,285,411</u>	<u>(2,537,455)</u>	<u>8,869,903</u>	<u>450,000</u>
Other liabilities:					
Notes payable	481,532	73,119	(95,103)	459,548	112,027
Net pension liability	315,961	-	(39,716)	276,245	-
Compensated absences	46,070	6,135	-	52,205	46,985
Total Governmental Activities	<u>\$ 6,965,510</u>	<u>\$ 5,364,665</u>	<u>\$ (2,672,274)</u>	<u>\$ 9,657,901</u>	<u>\$ 609,012</u>
Long-term liabilities due in more than one year				<u>\$ 9,048,889</u>	
Business-Type Activities:					
Notes payable	\$ 625,000	\$ -	\$ (120,000)	\$ 505,000	\$ 125,000
Net pension liability	109,372	-	(13,749)	95,623	-
Total Business-Type Activities	<u>\$ 734,372</u>	<u>\$ -</u>	<u>\$ (133,749)</u>	<u>\$ 600,623</u>	<u>\$ 125,000</u>
Long-term liabilities due in more than one year				<u>\$ 475,623</u>	

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

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

	Governmental Activities	Business - Type Activities
General Obligation Bonds:		
\$1,500,000 General Obligation Bonds, Series 2012 due in installments through 2032, interest at 1.25% to 3.125%	\$ 1,335,000	\$ -
\$2,185,000 General Obligation Refunding Bonds, Series 2014 due in installments through 2034, interest at 2% to 4%	2,070,000	-
\$4,855,000 General Obligation Refunding Bonds, Series 2015 due in installments through 2035, interest at 2% to 4%	4,855,000	-
Total General Obligation Bonds	\$ 8,260,000	\$ -
Certificates of Obligation:		
\$3,500,000 Certificates of Obligation, Series 2006 due in annual installments through 2016, interest at 5%	\$ 170,000	\$ -
Total Certificates of Obligation	\$ 170,000	\$ -
Notes Payable:		
\$317,122 Public Property Finance Act Contract 53080 due in annual installments through 2018, interest at 3.89%	\$ 165,413	\$ -
\$265,000 Public Property Finance Contractual Obligations due in annual installments through 2016, interest at 5%	235,000	-
\$625,000 Notes Payable, Series 2013, due in annual installments through 2019, interest at 0.86% to 1.89%	-	505,000
\$73,119 Public Property Finance Act Contract 6776 due in annual installments through 2017, interest at 3.97%	59,135	-
Total Notes Payable	\$ 459,548	\$ 505,000

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

The annual requirements to amortize governmental activities bond issues outstanding at year ending were as follows:

Governmental Activities				
Year ending September 30,	General Obligation Bonds		Certificates of Obligation	
	Principal	Interest	Principal	Interest
2016	\$ 280,000	\$ 268,931	\$ 170,000	\$ 4,250
2017	455,000	255,131	-	-
2018	470,000	245,881	-	-
2019	470,000	235,056	-	-
2020	495,000	222,456	-	-
2021	515,000	208,931	-	-
2022	525,000	192,731	-	-
2023	545,000	174,106	-	-
2024	560,000	154,881	-	-
2025	585,000	134,881	-	-
2026	540,000	114,816	-	-
2027	310,000	99,584	-	-
2028	320,000	88,588	-	-
2029	335,000	77,066	-	-
2030	345,000	64,753	-	-
2031	355,000	51,831	-	-
2032	375,000	38,241	-	-
2033	280,000	25,600	-	-
2034	300,000	10,000	-	-
2020	200,000	-	-	-
Total	\$ 8,260,000	\$ 2,663,464	\$ 170,000	\$ 4,250

The 2015 general obligation refunding bonds were issued September 8, 2015, due in annual installments through 2035, bearing interest ranging from 2.0% to 4.0% payable February 15 and August 15. Of the \$4,855,000 issued, \$2,150,000 of the 2006 series certificate of obligation was refunded.

The 2014 general obligation refunding bonds and the 2012 general obligation were used for the purpose of street improvements, including drainage, curbs, gutters, bridges, acquisition of equipment, machinery, land and right of ways as well as construction, acquiring, purchasing, renovating, enlarging, equipping and improving water and sewer system properties and facilities.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

The annual requirements to amortize total governmental notes payable at year ending were as follows:

Governmental Activities		
Year ending	Notes Payable	
September 30,	Principal	Interest
2016	\$ 112,027	\$ 13,082
2017	115,289	10,493
2018	92,267	5,334
2019	35,000	2,450
2020	35,000	1,750
2021	35,000	1,050
2022	34,965	350
	<u>\$ 459,548</u>	<u>\$ 34,509</u>

The annual requirements to amortize total business-type notes payable at year ending were as follows:

Business-Type Activities		
Year ending	Notes Payable	
September 30,	Principal	Interest
2016	\$ 125,000	\$ 6,170
2017	125,000	4,945
2018	125,000	3,357
2019	130,000	1,229
	<u>\$ 505,000</u>	<u>\$ 15,701</u>

E. Refunding Bond

The City issued \$4,855,000 in General Obligation Refunding Bonds, Series 2015 with an interest rate of 2% to 4%. The proceeds were used to refund \$2,500,000 of outstanding Certificate of Obligation, Series 2006, with interest rates of 5%. The reacquisition price exceeded the net carrying amount of the old debt by \$35,243. This amount is being amortized over the remaining life of the refunding debt. The government refunded the 2006 certificates of obligation to reduce its total debt service payments by \$199,081 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$172,040.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

F. Interfund Transactions

Transfers between the primary government funds during the 2015 year were as follows:

<u>Transfer out</u>	<u>Transfer In</u>	<u>Amount</u>
Debt Service	General	\$ 1,500
Nonmajor Governmental	General	7,714
Water	Safe Routes School	4,599
Water	General	117,275
Wastewater	General	149,200
Electric	General	887,137
Refuse	General	75,100
	Total	\$ 1,242,525

Government-wide transfers of assets between governmental activities and business-type activities during the 2015 year were as follows:

<u>Transfer out</u>	<u>Transfer In</u>	<u>Amount</u>
Governmental	Business-Type	\$ 908,747
	Total	\$ 908,747

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

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 11,711
General	Chapparral Grant	126,902
General	Safe Routes School	166,571
Wastewater	Water	307,334
Nonmajor Governmental	Water	87,993
Nonmajor Governmental	Electric	15,061
	Total	\$ 715,572

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

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
 September 30, 2015

G. Restricted Net Position / Fund Balance

The City records fund balance restrictions on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of restricted net position / fund balance of the City:

	Governmental Activities
Restricted for:	
Debt service	\$ 141,136
Library	1,809
*Municipal court	18,573
Public safety	39,503
Total	\$ 201,021

*Restricted by enabling legislation

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

The City uses a number of approaches to decrease risks and protect against losses to the City, including internal practices, employee training, and a code of ethics, which all employees are required to acknowledge

The City owns and operates motor vehicles and may provide such vehicle to employees for business use during the course and scope of their employment. The City is insured as to its own property losses, and the liability of loss to others.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

D. Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Farmersville, Texas participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of 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.tmrs.com.

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

2. 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 payments 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 interest.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

	<u>Plan Year 2014</u>	<u>Plan Year 2015</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	15
Active employees	<u>33</u>
Total	<u>66</u>

3. Contributions

The contribution rates for employees in 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.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

Employees for the City of Farmersville, Texas were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Farmersville, Texas were 9.14% and 9.40% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$159,524, and were equal to the required contributions.

4. Net Pension Liability (Asset)

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

Actuarial assumptions

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

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

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. 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.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

1% Decrease 6.00%	Current Single Rate Assumption 7.00%	1% Increase 8.00%
\$ 991,958	\$ 371,868	\$ (141,771)

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

Changes in the Net Pension (Asset) Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)
Balance at 12/31/13	\$ 4,484,670	\$ 4,059,337	\$ 425,333
Changes for the year:			
Service cost	157,726	-	157,726
Interest	313,135	-	313,135
Change in benefit terms	-	-	-
Difference between expected and actual experience	(66,943)	-	(66,943)
Changes of assumptions	-	-	-
Contributions – employer	-	146,026	(146,026)
Contributions – employee	-	81,766	(81,766)
Net investment income	-	232,214	(232,214)
Benefit payments, including refunds of emp. contributions	(180,348)	(180,348)	-
Administrative expense	-	(2,424)	2,424
Other changes	-	(199)	199
Net changes	223,570	277,035	(53,465)
Balance at 12/31/14	<u>\$ 4,708,240</u>	<u>\$ 4,336,372</u>	<u>\$ 371,868</u>

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.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

For the year ended September 30, 2015, the City recognized pension expense of \$99,724.

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

	Deferred Outflows of Resources
Difference between projected and investment earnings	\$ 41,226
Differences between expected and actual economic experience	(48,326)
Contributions subsequent to the measurement date	116,408
Total	\$ 109,308

The City reported \$117,326 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended	
December 31:	
2015	\$ (7,848)
2016	(7,848)
2017	(1,847)
2018	10,388
2019	-
Thereafter	-
	\$ (7,155)

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

6. Supplemental Death Benefits Plan

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

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 retiree contribution rates to the TMRS SDBF for the years ended 2014, 2013 and 2012 were \$875, \$748 and \$652, respectively, which equaled the required contribution each year.

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2012	0.06%	0.06%	100.0%
2013	0.05%	0.05%	100.0%
2014	0.05%	0.05%	100.0%

Contributions to Farmersville Volunteer Fire Department Pension Plan

The City made contributions on behalf of the Farmersville Volunteer Fire Department's (the "VFD") pension plan to the Texas Emergency Services Retirement System (TESRS) in the amount of \$6,469. The related net pension liability is estimated to be \$46,156. This is not recorded as the City can cease funding the program on behalf of the VFD.

City of Farmersville, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

E. Restatement

The City has restated beginning fund balance/net position within governmental activities, Business-type activities, general, debt service, safe routes school fund, as well as water, wastewater, electric and refuse funds due for corrections of errors and changes in the reporting as listed below. The restatement of beginning net position/fund balance is as follows:

	<u>Governmental Activities</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Safe Routes School Fund</u>	
Prior year ending net assets					
fund balance as reported	\$ 1,730,617	\$ 1,016,700	\$ 156,175	\$ (153,804)	
Corrections of errors:					
Restatement for accrued revenues	22,140	22,139	-	-	
Restatement for accrued liabilities	(43,032)	-	7,639	-	
Restatement for capital assets	1,497,251	-	-	(4,599)	
Restatement for deferred revenue	(49,724)	-	-	-	
Change in reporting:					
Change in accounting for pension liability	(238,826)	-	-	-	
Restated beginning net position/ fund balance	<u>\$ 2,918,426</u>	<u>\$ 1,038,839</u>	<u>\$ 163,814</u>	<u>\$ (158,403)</u>	
	<u>Business-Type Activities</u>	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Refuse</u>
Prior year ending net assets					
as reported	\$ 6,012,912	\$ 3,673,650	\$ 1,306,171	\$ 849,384	\$ 183,707
Corrections of errors:					
Restatement for accrued revenues	137,767	26,629	17,852	83,520	9,766
Change in reporting:					
Change in accounting for pension liability	(80,154)	(25,015)	-	(55,139)	-
Restated beginning net position	<u>\$ 6,070,525</u>	<u>\$ 3,675,264</u>	<u>\$ 1,324,023</u>	<u>\$ 877,765</u>	<u>\$ 193,473</u>

F. Subsequent Events

There were no material subsequent events through April 25, 2016, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Farmersville, Texas

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

For the Year Ended September 30, 2015

	Original Budget	Final Budget	2015 Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property tax	\$ 736,518	\$ 700,000	\$ 697,405	\$ (2,595)
Sales tax	450,000	450,000	458,600	8,600
Franchise and local taxes	109,350	114,439	116,446	2,007
License and permits	34,205	40,355	39,217	(1,138)
Charges for services	136,207	147,664	147,573	(91)
Fines and forfeitures	150,000	150,000	119,457	(30,543)
Intergovernmental	98,209	98,780	100,689	1,909
Investment income	250	600	873	273
Other revenues	71,105	77,340	96,579	19,239
Total Revenues	1,785,844	1,779,178	1,776,839	(2,339)
<u>Expenditures</u>				
Current:				
Mayor and city council	36,190	36,190	29,826	6,364
Administration	532,650	560,147	520,562	39,585
Library and civic center	181,831	174,618	162,958	11,660
Municipal court	196,760	195,152	179,397	15,755
Police	995,146	956,195	978,491	(22,296) *
Fire and EMS	410,280	365,059	321,917	43,142
Public works	805,890	819,626	684,300	135,326
Debt Service:				
Principal	91,830	91,831	95,103	(3,272) *
Interest and fiscal charges	14,980	14,980	14,116	864
Total Expenditures	3,265,557	3,213,798	2,986,670	227,128
Revenues Over (Under)				
Expenditures	(1,479,713)	(1,434,620)	(1,209,831)	224,789
<u>Other Financing Sources (Uses)</u>				
Transfers in	1,479,713	1,364,100	1,237,925	(126,175)
Proceeds from debt issuance	-	-	73,119	73,119
Total Other Financing Sources (Uses)	1,479,713	1,364,100	1,311,044	(53,056)
Net Change in Fund Balance	\$ -	\$ (70,520)	101,213	\$ 171,733
Beginning fund balance			1,038,839	
Ending Fund Balance			\$ 1,140,052	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles
2. * Denotes over budget at the legal level of control.

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City of Farmersville, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2015

	Original and Final Budget	2015 Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ -	\$ 514,802	\$ 514,802
Investment income	600	209	(391)
Total Revenues	600	515,011	514,411
<u>Expenditures</u>			
Debt service:			
Principal	125,666	330,000	(204,334) *
Interest	386,702	206,189	180,513
Total Expenditures	512,368	536,189	(23,821)
Revenues Over (Under)			
Expenditures	(511,768)	(21,178)	490,590
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	-	(1,500)	(1,500)
Total Other Financing Sources (Uses)	-	(1,500)	(1,500)
Net Change in Fund Balance	\$ (511,768)	(22,678)	\$ 489,090
Beginning fund balance		163,814	
Ending Fund Balance		\$ 141,136	

Notes to Required Supplementary Information

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

City of Farmersville, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2015

	2014 ¹
Total pension liability	
Service cost	\$ 157,726
Interest	313,135
Changes in benefit terms	-
Differences between expected and actual experience	(66,943)
Changes of assumptions	-
Benefit payments, including refunds of participant contributions	(180,348)
Net change in total pension liability	223,570
Total pension liability - beginning	\$ 4,484,670
Total pension liability - ending (a)	\$ 4,708,240
Plan fiduciary net position	
Contributions - employer	\$ 146,026
Contributions - members	81,766
Net investment income	232,214
Benefit payments, including refunds of participant contributions	(180,348)
Administrative expenses	(2,424)
Other	(199)
Net change in plan fiduciary net position	277,035
Plan fiduciary net position - beginning	4,059,337
Plan fiduciary net position - ending (b)	\$ 4,336,372
Fund's net pension liability - ending (a) - (b)	\$ 371,868
Plan fiduciary net position as a percentage of the total pension liability	92.10%
Covered employee payroll	\$ 1,635,328
Fund's net position as a percentage of covered employee payroll	22.74%

Notes to schedule:

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

City of Farmersville, Texas
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2015

	9/30/2015	¹
Actuarially determined employer contributions	\$ 146,026	
Contributions in relation to the actuarially determined contribution	\$ 146,026	
Contribution deficiency (excess)	\$ -	
Annual covered employee payroll	\$ 1,635,328	
Employer contributions as a percentage of covered employee payroll	9%	

¹This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
Mortality	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.

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NONMAJOR GOVERNMENTAL FUNDS

LIBRARY FUND

This fund accounts for funds to be used on the City's library.

MUNICIPAL COURT TECHNOLOGY FUND

This fund accounts for funds that are legally restricted for use on municipal court technology.

MUNICIPAL COURT SECURITY FUND

This fund accounts for funds that are used for Law Enforcement Officer Safety Equipment grants to be used for Law Enforcement Officer Safety Equipment.

POLICE SEIZURE FUND

This fund accounts for court fees that are legally restricted for court expenses.

SRO

This fund accounts for funds that are used for School Resource Officers.

LEOSE

The Law Enforcement Officer Standards and Education is used to account for funds used to provide continuing education for law enforcement officers.

CHILD SAFETY

The purpose of this fund is to provide funding for public, parochial, and private school crossing guard programs inside the City.

SPECIAL PROJECTS

This fund accounts for funds to be used for special projects.

TIRZ

This fund accounts for funds to be used for planned development of a certain contiguous geographic area.

City of Farmersville, Texas

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2015

	Library Fund	Municipal Court Technology	Municipal Court Security	Police Seizure
<u>Assets</u>				
Cash and cash equivalents	\$ 1,809	\$ 11,400	\$ 7,433	\$ -
Due from other funds	-	-	-	-
Due from other governments	-	-	-	-
Total Assets	\$ 1,809	\$ 11,400	\$ 7,433	\$ -
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 260	\$ -	\$ -
Total Liabilities	-	260	-	-
<u>Fund Balances</u>				
Restricted for:				
Library	1,809	-	-	-
Municipal court	-	11,140	7,433	-
Public safety	-	-	-	-
Special projects	-	-	-	-
Total Fund Balances	1,809	11,140	7,433	-
Total Liabilities and Fund Balances	\$ 1,809	\$ 11,400	\$ 7,433	\$ -

<u>SRO</u>	<u>LEOSE</u>	<u>Child Safety</u>	<u>Special Projects</u>	<u>TIRZ</u>	<u>Total Nonmajor Governmental</u>
\$ -	\$ 1,164	\$ 21,218	\$ 27,279	\$ 52,322	\$ 122,625
-	-	-	103,054	-	103,054
17,121	-	-	-	-	17,121
<u>\$ 17,121</u>	<u>\$ 1,164</u>	<u>\$ 21,218</u>	<u>\$ 130,333</u>	<u>\$ 52,322</u>	<u>\$ 242,800</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 260
-	-	-	-	-	260
-	-	-	-	-	1,809
-	-	-	-	-	18,573
17,121	1,164	21,218	-	-	39,503
-	-	-	130,333	52,322	182,655
<u>17,121</u>	<u>1,164</u>	<u>21,218</u>	<u>130,333</u>	<u>52,322</u>	<u>242,540</u>
<u>\$ 17,121</u>	<u>\$ 1,164</u>	<u>\$ 21,218</u>	<u>\$ 130,333</u>	<u>\$ 52,322</u>	<u>\$ 242,800</u>

City of Farmersville, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2015

	Library Fund	Municipal Court Technology	Municipal Court Security	Police Seizure
<u>Revenues</u>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	3,533	2,650	-
Donations and contributions	182	-	-	-
Other revenue	-	-	-	-
Total Revenues	182	3,533	2,650	-
<u>Expenditures</u>				
Public safety	-	-	-	543
Municipal court	-	3,232	-	-
Total Expenditures	-	3,232	-	543
Revenues Over (Under) Expenditures	182	301	2,650	(543)
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	182	301	2,650	(543)
Beginning fund balances	1,627	10,839	4,783	543
Ending Fund Balances	\$ 1,809	\$ 11,140	\$ 7,433	\$ -

<u>SRO</u>	<u>LEOSE</u>	<u>Child Safety</u>	<u>Special Projects</u>	<u>TIRZ</u>	<u>Total Nonmajor Governmental</u>
\$ -	\$ -	\$ -	\$ -	\$ 52,322	\$ 52,322
-	-	4,151	-	-	10,334
-	-	-	-	-	182
17,121	1,164	-	-	-	18,285
<u>17,121</u>	<u>1,164</u>	<u>4,151</u>	<u>-</u>	<u>52,322</u>	<u>81,123</u>
-	-	-	-	-	543
-	-	-	-	-	3,232
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,775</u>
<u>17,121</u>	<u>1,164</u>	<u>4,151</u>	<u>-</u>	<u>52,322</u>	<u>77,348</u>
<u>(7,714)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,714)</u>
<u>(7,714)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,714)</u>
9,407	1,164	4,151	-	52,322	69,634
7,714	-	17,067	130,333	-	172,906
<u>\$ 17,121</u>	<u>\$ 1,164</u>	<u>\$ 21,218</u>	<u>\$ 130,333</u>	<u>\$ 52,322</u>	<u>\$ 242,540</u>

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