

CITY OF WOODVILLE, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2016

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**CITY OF WOODVILLE, TEXAS
PRINCIPAL OFFICIALS
SEPTEMBER 30, 2016**

Russ Nalley Mayor
Mandy Risinger City Administrator
Terri Bible City Secretary

CITY COUNCIL

Joyce Wilson

Herbert Branch

Janice Weatherford

Lee P. Mann

Byron Stowe

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FINANCIAL SECTION

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Ted A. Lankford, CPA
Glenda J. Hiers, CPA
Richard A. Rudel, CPA

Wilbur E. Alexander, CPA
(1940 - 2009)

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Susan L. Murrell, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of
the City Council
City of Woodville, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Report on the Financial Statements - Continued

Auditor's Responsibility - Continued

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress for retiree health insurance plan, schedule of changes in net pension liability and related ratios and schedule of contributions on pages 11 through 20 and 69 through 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Woodville, Texas' basic financial statements. The introductory section, individual fund statements and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Report on the Financial Statements - Continued

Other Matters - Continued

Other Information - Continued

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2017 on our consideration of the City of Woodville, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Woodville, Texas' internal control over financial reporting and compliance.

Alexander, Lankford & Hiers, Inc.

ALEXANDER, LANKFORD & HIERS, INC.
Certified Public Accountants

Lufkin, Texas
February 7, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Woodville, Texas (City), we offer readers of the City's financial statements this overview and analysis of the financial activities of City of Woodville, Texas for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the financial statements and notes to the financial statements (which immediately follow this discussion).

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$15,546,856 (net position). Of this amount, \$10,268,657 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The change in net position (government-wide) was \$883,907. This is due primarily to Water and Sewer Funds increase in net position of \$1,083,091.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,003,429, a decrease of \$448,796 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balances for the General Funds and the Sanitation Fund were \$2,940,825 and \$765,886, respectively for a total of \$3,706,711. These fund balances represent 125 percent and 155 percent of total expenditures of the General and Sanitation Funds, respectively.
- The City's total debt decreased by \$235,144 during the fiscal year. The key factors in this decrease were retirement of \$205,000 of general obligation bonds, retirement of \$167,775 of capital leases, increase in net OPEB obligation of \$134,170, increase in long-term compensated absences of \$10,009, and amortization of bond premiums of \$6,548.

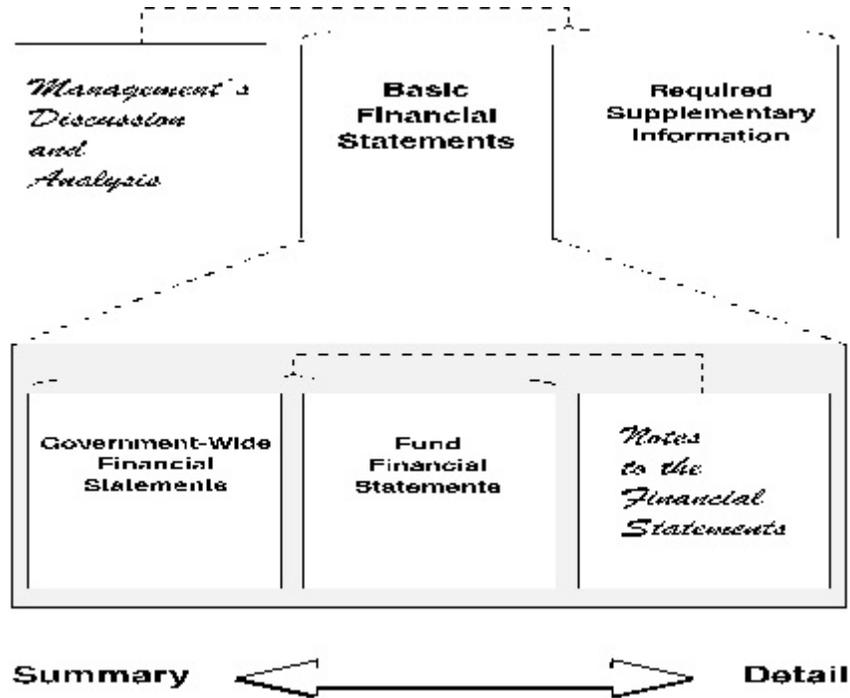
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts, *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED

Figure A-1



The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.

The governmental fund statements tell how general government services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain.

MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED

Figure A-2

Major Features of the City’s Government-Wide and Fund Financial Statements

Type of Statements	Government - Wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire government (except fiduciary funds) and its component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses
Required Financial Statements	Statement of Net Position	Balance Sheet	Statement of Net Position
	Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Revenues, Expenses and Changes in Fund Net Position Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Only assets and deferred outflows of resources expected to be used up and only liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

This discussion and analysis serves as an introduction to City of Woodville, Texas’ basic financial statements. The City’s basic financial statements are comprised of three components; 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other financial information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial 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 all of the City’s assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources 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 reported in this statement for some items that will only result in cash flows in future fiscal periods.

The management of the City has reviewed other entities and activities for possible inclusion in the reporting entity. No other entities or activities are included within the City’s reporting entity.

The government-wide financial statements can be found on pages 21 - 23 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED

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. The funds of the City are classified as *governmental funds* or *proprietary funds*.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on how cash resources flow into and out of those funds and balances remaining at the year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, that requires the recognition of revenue when earned, only so long as the funds are collected within the period or soon enough afterwards to be used to pay liabilities of the current period. Such information may be useful in evaluating a government's near-term financing requirements.

The focus of governmental funds is narrower than that of the government-wide financial statements; therefore, 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 funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains three individual governmental funds. Information is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund and the other governmental funds.

The City adopts an annual budget for its general and sanitation funds. A budgetary comparison statement has been provided for the general funds and the sanitation fund to demonstrate compliance with these budgets.

The governmental funds financial statements can be found on pages 25 - 28 of this report.

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 and sewer service and for its gas service.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED

Proprietary Funds - Continued

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the water and sewer funds and for the gas funds, both of which are considered to be major funds of the City of Woodville.

The proprietary funds financial statements can be found on pages 29 - 34 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 35 - 65 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$15,546,856 at the close of the most recent fiscal year. The following table reflects the condensed Statement of Net Position.

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 4,212,752	\$ 4,644,215	\$ 9,784,566	\$ 9,062,640	\$ 13,997,318	\$ 13,706,855
Capital assets	1,331,626	993,263	7,503,586	7,459,766	8,835,212	8,453,029
Total assets	<u>5,544,378</u>	<u>5,637,478</u>	<u>17,288,152</u>	<u>16,522,406</u>	<u>22,832,530</u>	<u>22,159,884</u>
Deferred outflows of resources	464,850	191,518	151,987	58,276	616,837	249,794
Long-term liabilities	1,297,388	1,225,504	3,782,312	4,089,340	5,079,700	5,314,844
Net pension liability	1,067,085	744,254	331,367	223,756	1,398,452	
Other liabilities	138,558	121,223	1,285,801	1,342,652	1,424,359	1,463,875
Total liabilities	<u>2,503,031</u>	<u>2,090,981</u>	<u>5,399,480</u>	<u>5,655,748</u>	<u>7,902,511</u>	<u>6,778,719</u>
Net position:						
Net investment in capital assets	1,078,972	993,263	4,052,607	3,691,795	5,131,579	4,685,058
Restricted			146,620	201,272	146,620	201,272
Unrestricted	2,427,225	2,744,752	7,841,432	7,031,867	10,268,657	9,776,619
Total net position	<u>\$ 3,506,197</u>	<u>\$ 3,738,015</u>	<u>\$ 12,040,659</u>	<u>\$ 10,924,934</u>	<u>\$ 15,546,856</u>	<u>\$ 14,662,949</u>

MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED

GOVERNMENT-WIDE FINANCIAL ANALYSIS - CONTINUED

- The largest portion of the City’s net position (sixty-six percent) represents unrestricted financial resources available for future operations.
- Additionally, a portion of the City’s net position (thirty-three percent) reflects its investment in capital assets (e.g., buildings, improvements, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to the individuals we serve; consequently, these assets are not available for future spending.
- A portion of the City’s net position (one percent) represents resources that are subject to external restrictions on how they can be used.
- At the end of the current fiscal year, the City is able to report a positive balance in all three categories of net position.

Analysis of the City’s Operations

The following table provides a summary of the City’s operations for the year ended September 30, 2016. Governmental activities decreased the City’s net position by \$231,818 and the business-type activities increased the City’s net position by \$1,115,725, accounting for the change in net position.

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for services	\$ 744,550	\$ 673,554	\$ 2,677,906	\$ 2,909,112	\$ 3,422,456	\$ 3,582,666
Operating grants and contributions	12,088	15,994			12,088	15,994
Capital grants and contributions			517,063	106,200	517,063	106,200
General Revenues:						
Ad valorem taxes	421,236	411,984			421,236	411,984
Sales taxes	1,014,872	1,086,122			1,014,872	1,086,122
Other taxes	183,001	193,797			183,001	193,797
Other revenues	17,549	8,056	158,936	134,340	176,485	142,396
Unrestricted investment earnings	10,696	6,589	20,939	7,769	31,635	14,358
Gain on sale of capital assets		5,952		3,461		9,413
Transfers	9		(9)			
Total revenues	2,404,001	2,402,048	3,374,835	3,160,882	5,778,836	5,562,930

MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2016	2015	2016	2015	2016	2015
Expenses:						
General government	480,194	454,731			480,194	454,731
Public safety	1,198,578	1,078,803			1,198,578	1,078,803
Highways and streets	354,822	330,757			354,822	330,757
Sanitation	547,037	525,259			547,037	525,259
Culture and recreation	46,962	47,078			46,962	47,078
Interest and fiscal charges	8,226	1,697			8,226	1,697
Water and sewer			1,412,140	1,352,901	1,412,140	1,352,901
Gas			846,970	1,081,886	846,970	1,081,886
Total expenses	2,635,819	2,438,325	2,259,110	2,434,787	4,894,929	4,873,112
Change in net position	(231,818)	(36,277)	1,115,725	726,095	883,907	689,818
Net position, beginning of year	3,738,015	4,344,822	10,924,934	10,370,436	14,662,949	14,715,258
Cumulative effect of change in accounting principle		(570,530)		(171,597)		(742,127)
Net position, beginning of year, as restated	3,738,015	3,774,292	10,924,934	10,198,839	14,662,949	13,973,131
Net position, end of year	\$ 3,506,197	\$ 3,738,015	\$ 12,040,659	\$ 10,924,934	\$ 15,546,856	\$ 14,662,949

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

Governmental Funds

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

As the City completed the year, its governmental funds, as presented in the balance sheet on page 25, reported *combined* ending fund balances of \$4,003,429, which is a decrease of \$448,796 from last year’s total of \$4,452,225. Seven percent of the total fund balance, or \$296,718 has been assigned, meaning there are limitations resulting from its intended use. The assigned uses include \$138,173 and \$158,545 for the 2017 budgeted deficits in the General Funds and Sanitation Fund, respectively.

The General Funds are the operating funds of the City. At the end of the current fiscal year, unassigned fund balance of the General Funds was \$2,940,825, which represented 96 percent of total fund balance. As a measure of the General Funds’ liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 125 percent of total General Funds expenditures. Refer to page 25 of this report for a more detailed presentation of governmental fund balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

FINANCIAL ANALYSIS OF THE CITY'S FUNDS - CONTINUED

Proprietary Funds

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

Unrestricted net position of the Water and Sewer Funds at the end of the current fiscal year amounted to \$6,337,876 and the Gas Funds amounted to \$1,503,556. The total increase in net position for the Water and Sewer Funds was \$1,083,091 and the total increase in net position for the Gas Funds was \$32,634. Other factors concerning these two funds have been addressed in the discussion of the City's business-type activities.

BUDGETARY HIGHLIGHTS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's financial plan is controlled at the fund and project level with management authorized to make transfers of budgeted amounts between object class levels within a fund or project, or within restrictions imposed by grantor agencies. The City Council approves the financial plan for revenues and expenditures in all funds. The financial plan for grants is made on a project (grant) basis, spanning more than one year. Appropriations for all projects lapse at the end of a contract period which may not coincide with the fiscal year end of the City.

The budget was not amended during the year. There were no differences between the original budget and the final budget.

Differences between the actual results and the final budget for the General Funds were significant (\$13,769 decrease in actual revenues and \$209,069 increase in actual expenditures) and can be briefly summarized as follows:

- Decrease of \$75,128 in sales taxes revenue was primarily due to lower sales tax collections than the City anticipated.
- Increase of \$305,578 in public safety expenditures was primarily due to the purchase of a fire truck for \$315,092 which was not included in the 2016 budget.

MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED

BUDGETARY HIGHLIGHTS - CONTINUED

- Decrease of \$74,970 in highways and streets expenditures was primarily due to less demolition expenditures of \$10,000, less fuel and oil of \$6,953, less gravel and premix expenditures of \$6,093, less vehicle maintenance and repairs of \$5,055, less equipment repairs of \$8,709, and less construction costs and engineering fees of \$36,825.

Differences between the actual results and the final budget for the Sanitation Fund were not significant for actual revenues but were significant for actual expenditures (\$138,946 decrease in actual expenditures) and can be briefly summarized as follows:

- Decrease of \$138,946 in sanitation expenditures was primarily due to no necessary contingency expenditures of \$100,000, less health insurance expenditures of \$12,220, less fuel and oil of \$14,116, and less miscellaneous supplies of \$17,939.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City’s investment in capital assets for its governmental and business-type activities as of September 30, 2016 amounts to \$8,835,212 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and machinery and equipment.

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2016	2015	2016	2015	2016	2015
Land	\$ 264,159	\$ 264,159	\$ 37,184	\$ 37,184	\$ 301,343	\$ 301,343
Buildings	794,231	794,231			794,231	794,231
Improvements	3,047,555	2,910,380	19,523,830	19,495,823	22,571,385	22,406,203
Machinery and equipment	2,144,549	1,804,950	444,577	444,577	2,589,126	2,249,527
Construction in progress		19,000	1,695,441	1,149,681	1,695,441	1,168,681
Less: accumulated depreciation	(4,918,868)	(4,799,457)	(14,197,446)	(13,667,499)	(19,116,314)	(18,466,956)
Total	\$ 1,331,626	\$ 993,263	\$ 7,503,586	\$ 7,459,766	\$ 8,835,212	\$ 8,453,029

Additional information regarding the City’s capital assets can be found in the Capital Assets note on pages 49 - 50 of this report.

MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED

CAPITAL ASSETS AND DEBT ADMINISTRATION - CONTINUED

Long-Term Liabilities

At the end of the current fiscal year, the City of Woodville had total long-term liabilities outstanding of \$5,079,700.

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2016	2015	2016	2015	2016	2015
General obligation bonds			\$ 2,025,586	\$ 2,237,134	\$ 2,025,586	\$ 2,237,134
Capital leases	\$ 252,654	\$ 314,985	1,425,393	1,530,837	1,678,047	1,845,822
Compensated absences	62,606	52,597			62,606	52,597
Net OPEB obligation	978,128	853,922	331,333	321,369	1,309,461	1,175,291
Transfer station clean-up costs	4,000	4,000			4,000	4,000
Total	\$ 1,297,388	\$ 1,225,504	\$ 3,782,312	\$ 4,089,340	\$ 5,079,700	\$ 5,314,844

The City’s total debt decreased by \$235,144 (four percent) during the current year. As a General Law City, the City of Woodville, Texas is not limited by law in the amount of debt it may issue.

Additional information on the City’s long-term debt and other liabilities can be found in the Long-Term Liabilities note on pages 51 - 52 of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

- The unemployment rate for Tyler County increased from 6.8% in September, 2015 to 8.2% in September, 2016, an increase of 1.4% over the year.
- The sales taxes revenue for the fiscal year ended September 30, 2016 was \$1,014,872, a decrease of \$71,250 or 7% under fiscal year 2015 totals.

All of these factors were considered in preparing the City of Woodville’s budget for the 2017 fiscal year.

During fiscal year 2016, the assigned and unassigned fund balance in the General Funds decreased to \$3,078,998. Of this amount, \$138,173 has been appropriated for spending in the 2017 fiscal year budget.

Water and Sewer rates were not increased for the year ended September 30, 2016. Gas rates are adjusted monthly based on the City’s cost.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of City of Woodville, Texas’ finances for all those with an interest in the City’s finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Woodville, Texas, 400 W. Bluff, Woodville, Texas 75979.

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 3,736,907	\$ 8,284,208	\$ 12,021,115
Investments	245,000	740,276	985,276
Receivables:			
Taxes	184,590		184,590
Accounts	1,388,190	288,302	1,676,492
Other		48,254	48,254
Intergovernmental		82,432	82,432
Allowance for uncollectibles	(1,341,935)	(5,109)	(1,347,044)
Restricted cash		345,740	345,740
Restricted investments		463	463
Capital assets (net of accumulated depreciation)	1,331,626	7,503,586	8,835,212
Total assets	5,544,378	17,288,152	22,832,530
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	464,850	151,987	616,837
Total deferred outflows of resources	464,850	151,987	616,837
LIABILITIES			
Accounts payable	120,952	209,603	330,555
Accrued interest	4,398	6,056	10,454
Other liabilities	13,208	25,333	38,541
Unearned revenue		869,643	869,643
Payable from restricted assets:			
Accrued interest		10,400	10,400
Customer meter deposits		164,766	164,766
Noncurrent liabilities:			
Due within one year	123,012	210,576	333,588
Due in more than one year	1,174,376	3,571,736	4,746,112
Net pension liability	1,067,085	331,367	1,398,452
Total liabilities	2,503,031	5,399,480	7,902,511
NET POSITION			
Net investment in capital assets	1,078,972	4,052,607	5,131,579
Restricted for:			
Retirement of debt		146,610	146,610
Construction		10	10
Unrestricted	2,427,225	7,841,432	10,268,657
Total net position	\$ 3,506,197	\$ 12,040,659	\$ 15,546,856

The accompanying notes are an integral part of this financial statement.

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

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES
Governmental Activities:		
General government	\$ 480,194	\$ 32,787
Public safety	1,198,578	201,395
Highways and streets	354,822	
Sanitation	547,037	510,368
Culture and recreation	46,962	
Interest and fiscal charges	8,226	
	<hr/>	
Total governmental activities	2,635,819	744,550
	<hr/>	
Business-Type Activities:		
Water and sewer	1,412,140	1,802,962
Gas	846,970	874,944
	<hr/>	
Total business-type activities	2,259,110	2,677,906
	<hr/>	
Total	\$ 4,894,929	\$ 3,422,456
	<hr/> <hr/>	

PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
		\$ (447,407)		\$ (447,407)
\$ 12,088		(985,095)		(985,095)
		(354,822)		(354,822)
		(36,669)		(36,669)
		(46,962)		(46,962)
		(8,226)		(8,226)
12,088		(1,879,181)		(1,879,181)
	\$ 517,063		\$ 907,885	907,885
			27,974	27,974
	517,063		935,859	935,859
\$ 12,088	\$ 517,063	(1,879,181)	935,859	(943,322)

General Revenues:

Ad valorem taxes	421,236		421,236
Sales taxes	1,014,872		1,014,872
Other taxes	183,001		183,001
Other revenues	17,549	158,936	176,485
Unrestricted investment earnings	10,696	20,939	31,635
Transfers	9	(9)	
Total general revenues and transfers	1,647,363	179,866	1,827,229
Change in net position	(231,818)	1,115,725	883,907
Net position, beginning of year	3,738,015	10,924,934	14,662,949
Net position, end of year	\$ 3,506,197	\$12,040,659	\$ 15,546,856

The accompanying notes are an integral part of this financial statement.

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CITY OF WOODVILLE, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	GENERAL	SANITATION	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$ 2,849,036	\$ 887,871	\$ 3,736,907
Investments	245,000		245,000
Receivables:			
Taxes	184,590		184,590
Accounts	1,328,275	59,915	1,388,190
Allowance for uncollectibles	(1,341,241)	(694)	(1,341,935)
 Total assets	 \$ 3,265,660	 \$ 947,092	 \$ 4,212,752
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 101,659	\$ 19,293	\$ 120,952
Other liabilities	9,840	3,368	13,208
 Total liabilities	 111,499	 22,661	 134,160
 DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	75,163		75,163
 FUND BALANCES			
Assigned:			
2017 budget deficit	138,173	158,545	296,718
Unassigned	2,940,825	765,886	3,706,711
 Total fund balances	 3,078,998	 924,431	 4,003,429
 Total liabilities, deferred inflows of resources and fund balances	 \$ 3,265,660	 \$ 947,092	 \$ 4,212,752

The accompanying notes are an integral part of this financial statement.

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

Total fund balances - governmental funds balance sheet (page 25)	\$ 4,003,429
Amounts reported for governmental activities in the statement of net position (page 21) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,331,626
Certain revenues are unavailable to pay current period expenditures and therefore are not recognized as revenues in the governmental funds.	75,163
Payables for compensated absences which are not due in the current period are not reported in the funds.	(62,606)
Payables for net OPEB obligations which are not due in the current period are not reported in the funds.	(978,128)
Payables for transfer station clean-up costs which are not due in the current period are not reported in the funds.	(4,000)
Payables for long-term capital leases are not due in the current period and therefore are not reported in the governmental funds.	(252,654)
Payable for accrued interest on long-term liabilities which is not due in the current period is not reported in the governmental funds.	(4,398)
The City's deferred outflows of resources related to pension plans is not reported in the governmental funds.	464,850
The City's net pension liability is not reported in the governmental funds	<u>(1,067,085)</u>
Net position of governmental activities (page 21)	<u><u>\$ 3,506,197</u></u>

The accompanying notes are an integral part of this financial statement.

CITY OF WOODVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	GENERAL	SANITATION	TOTAL GOVERNMENTAL FUNDS
Revenues			
Ad valorem taxes	\$ 422,203		\$ 422,203
Sales taxes	1,014,872		1,014,872
Other taxes	183,001		183,001
Licenses and permits	32,787		32,787
Fines and forfeitures	197,729		197,729
Charges for services		\$ 510,368	510,368
Intergovernmental	12,088		12,088
Investment earnings	8,552	2,144	10,696
Other revenues	17,199	350	17,549
Total revenues	<u>1,888,431</u>	<u>512,862</u>	<u>2,401,293</u>
Expenditures			
Current:			
General government	443,153		443,153
Public safety	1,375,353		1,375,353
Highways and streets	423,505		423,505
Sanitation		495,204	495,204
Culture and recreation	45,027		45,027
Debt Service:			
Principal	62,331		62,331
Interest and fiscal changes	5,525		5,525
Total expenditures	<u>2,354,894</u>	<u>495,204</u>	<u>2,850,098</u>
Excess (deficiency) of revenues over expenditures	<u>(466,463)</u>	<u>17,658</u>	<u>(448,805)</u>
Other Financing Sources (Uses)			
Transfers in	14	126,647	126,661
Transfers out		(126,652)	(126,652)
Total other financing sources (uses)	<u>14</u>	<u>(5)</u>	<u>9</u>
Net change in fund balances	(466,449)	17,653	(448,796)
Fund balances, beginning of year	<u>3,545,447</u>	<u>906,778</u>	<u>4,452,225</u>
Fund balances, end of year	<u>\$ 3,078,998</u>	<u>\$ 924,431</u>	<u>\$ 4,003,429</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF WOODVILLE, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Net change in fund balances - total governmental funds (page 27)	\$ (448,796)
Amounts reported for governmental activities in the statement of activities (pages 22 - 23) are different because:	
Capital outlays are not reported as expenses in the statement of activities.	457,774
The depreciation of capital assets used in governmental activities is not reported in the funds.	(119,411)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,699
Compensated absences are reported as the amount earned in the statement of activities but as the amount paid in the funds.	(10,009)
Increase in net OPEB obligation is reported as the amount earned in the statement of activities but as the amount paid in the funds.	(124,206)
Repayment of capital lease principal is an expenditure in the funds but is not an expense on the statement of activities.	62,331
Amount represents the change in accrued interest from the beginning of the period to the end of the period.	(2,701)
The City's recognition of its pension plan expense is not reported in the funds.	(148,670)
Contributions to TMRS made before the measurement date, December 31, 2015, but during fiscal year 2016 are expenditures in the funds, but not expenses in the statement of activities.	49,046
Contributions to TMRS made after the measurement date, December 31, 2015, are required to be reported as deferred outflows of resources in the statement of net position, not expenses in the statement of activities.	137,339
The amortization of deferred outflows for TMRS is included in pension expense in the statement of activities, but not in the funds.	<u>(87,214)</u>
Change in net position of governmental activities (page 23)	<u><u>\$ (231,818)</u></u>

The accompanying notes are an integral part of this financial statement.

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

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER AND SEWER FUNDS	GAS FUNDS	TOTALS
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,821,056	\$ 1,463,152	\$ 8,284,208
Investments	495,000	245,276	740,276
Receivables:			
Accounts	194,137	94,165	288,302
Intergovernmental	82,432		82,432
Other	48,254		48,254
Allowance for uncollectibles	(3,444)	(1,665)	(5,109)
Due from other funds	5		5
Total current assets	<u>7,637,440</u>	<u>1,800,928</u>	<u>9,438,368</u>
Noncurrent assets:			
Restricted assets:			
Restricted cash and cash equivalents	300,351	45,389	345,740
Restricted investments	463		463
Total restricted assets	<u>300,814</u>	<u>45,389</u>	<u>346,203</u>
Capital assets (net of accumulated depreciation)	<u>6,568,885</u>	<u>934,701</u>	<u>7,503,586</u>
Total noncurrent assets	<u>6,869,699</u>	<u>980,090</u>	<u>7,849,789</u>
Total assets	<u>14,507,139</u>	<u>2,781,018</u>	<u>17,288,157</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	<u>97,032</u>	<u>54,955</u>	<u>151,987</u>
Total deferred outflows of resources	<u>97,032</u>	<u>54,955</u>	<u>151,987</u>
LIABILITIES			
Current liabilities:			
Accounts payable	162,416	47,187	209,603
Accrued interest	4,037	2,019	6,056
Other liabilities	11,738	13,595	25,333
Due to other funds	5		5
Unearned revenue	869,643		869,643
Capital leases - current	<u>72,685</u>	<u>36,343</u>	<u>109,028</u>
Total current liabilities	<u>1,120,524</u>	<u>99,144</u>	<u>1,219,668</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF WOODVILLE, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS - CONTINUED
SEPTEMBER 30, 2016**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER AND SEWER FUNDS	GAS FUNDS	TOTALS
LIABILITIES - CONTINUED			
Current liabilities payable from restricted assets:			
General obligation bonds - current	101,548		101,548
Accrued interest	10,400		10,400
Customer meter deposits	53,637	111,129	164,766
Total current liabilities payable from restricted assets	165,585	111,129	276,714
Noncurrent liabilities:			
General obligation bonds - long-term	1,924,038		1,924,038
Capital leases - long-term	877,577	438,788	1,316,365
Net OPEB obligation	234,116	97,217	331,333
Net pension liability	204,798	126,569	331,367
Total noncurrent liabilities	3,240,529	662,574	3,903,103
Total liabilities	4,526,638	872,847	5,399,485
NET POSITION			
Net investment in capital assets	3,593,037	459,570	4,052,607
Restricted for retirement of debt	146,610		146,610
Restricted for construction	10		10
Unrestricted	6,337,876	1,503,556	7,841,432
Total net position	\$ 10,077,533	\$ 1,963,126	\$ 12,040,659

The accompanying notes are an integral part of this financial statement

CITY OF WOODVILLE, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER AND SEWER FUNDS	GAS FUNDS	TOTALS
Operating Revenues:			
Charges for services	\$ 1,802,962	\$ 874,944	\$ 2,677,906
Operating Expenses:			
Personnel services	372,731	186,136	558,867
Contractual services	256,450	77,063	333,513
Materials and supplies	123,803	22,819	146,622
Cost of services		483,020	483,020
Depreciation	474,695	55,252	529,947
Repairs and maintenance	85,922	5,167	91,089
Bad debts	1,514	318	1,832
Other	1,200		1,200
	1,316,315	829,775	2,146,090
Total operating expenses			
Operating income	486,647	45,169	531,816
Nonoperating Revenues (Expenses):			
Investment earnings	17,095	3,844	20,939
Other revenues	158,116	820	158,936
Interest and fiscal charges	(95,825)	(17,195)	(113,020)
	79,386	(12,531)	66,855
Total nonoperating revenues (expenses)			
Income before contributions and transfers	566,033	32,638	598,671
Contributions and Transfers:			
Capital contributions	517,063		517,063
Transfers in	2,165,557	207,843	2,373,400
Transfers out	(2,165,562)	(207,847)	(2,373,409)
	517,058	(4)	517,054
Total contributions and transfers			
Change in net position	1,083,091	32,634	1,115,725
Net position, beginning of year	8,994,442	1,930,492	10,924,934
Net position, end of year	\$ 10,077,533	\$ 1,963,126	\$ 12,040,659

The accompanying notes are an integral part of this financial statement.

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

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER AND SEWER FUNDS	GAS FUNDS	TOTALS
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,771,593	\$ 880,883	\$ 2,652,476
Payments to suppliers	(465,644)	(587,107)	(1,052,751)
Payments to employees	(356,339)	(186,897)	(543,236)
Net cash provided by operating activities	949,610	106,879	1,056,489
Cash flows from noncapital financing activities:			
Other nonoperating revenues	104,349	820	105,169
Transfers in	2,165,557	207,843	2,373,400
Transfers out	(2,165,562)	(207,847)	(2,373,409)
Net cash provided by noncapital financing activities	104,344	816	105,160
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(573,767)		(573,767)
Principal payments on long-term debt	(280,296)	(35,148)	(315,444)
Interest and fiscal charges on long-term debt	(98,579)	(17,344)	(115,923)
Capital grants received	538,539		538,539
Net cash used in capital and related financing activities	(414,103)	(52,492)	(466,595)
Cash flows from investing activities:			
Purchase of investments	(495,000)	(245,000)	(740,000)
Investment maturities	500,348	250,253	750,601
Investment earnings	17,108	3,853	20,961
Net cash provided by investing activities	22,456	9,106	31,562
Net increase in cash and cash equivalents	662,307	64,309	726,616
Cash and cash equivalents, beginning of year	6,459,100	1,444,232	7,903,332
Cash and cash equivalents, end of year	<u>\$ 7,121,407</u>	<u>\$ 1,508,541</u>	<u>\$ 8,629,948</u>

The accompanying notes are an integral part of this financial statement.

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

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	WATER AND SEWER FUNDS	GAS FUNDS	TOTALS
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 486,647	\$ 45,169	\$ 531,816
Adjustments to reconcile operating income to cash provided by operating activities:			
Depreciation	474,695	55,252	529,947
Decrease in accounts receivable - net	5,686	4,251	9,937
(Increase) in other receivables	(37,346)		(37,346)
(Increase) in deferred outflows related to pensions	(60,272)	(33,439)	(93,711)
Increase in accounts payable	1,731	962	2,693
(Decrease) in other liabilities	(5,956)	(2,541)	(8,497)
Increase in customer meter deposits	1,805	2,270	4,075
Increase (decrease) in net OPEB obligation	13,749	(3,785)	9,964
Increase in net pension liability	68,871	38,740	107,611
Total adjustments	462,963	61,710	524,673
Net cash provided by operating activities	\$ 949,610	\$ 106,879	\$ 1,056,489

The accompanying notes are an integral part of this financial statement.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

(1) Summary of Significant Accounting Policies

The City of Woodville, Texas (City) operates under Section 4, Article XI of the Texas constitution as a general law, Type A city. The City operates under a Council-Manager form of government and provides the following services as authorized: public safety (police and fire), highways and streets, sanitation, recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basic operations of the City are financed by ad valorem taxes, sales taxes, other taxes, licenses and permits, fines and forfeitures, charges for services, investment earnings and other revenues. The City receives federal, state and local grant funds to finance specific programs.

(A) Reporting Entity

The financial reporting entity consists of the primary government and all component units for which it is financially accountable and other 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. After considering the above, there are no other agencies, organizations, or activities meeting the criteria to be included in the financial reporting entity.

(B) Government-Wide and Fund Financial Statements

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

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

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(1) **Summary of Significant Accounting Policies - Continued**

(B) **Government-Wide and Fund Financial Statements - Continued**

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

(C) **Measurements Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims or judgements, are recorded only when payment is due.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Property taxes, franchise taxes, licenses and interest earnings are susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Funds* comprise the City's operating fund. It accounts for all financial resources of the general government.

The *Sanitation Fund* accounts for the solid waste services to the residents of the City and some residents of the County.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(1) Summary of Significant Accounting Policies - Continued

(C) Measurements Focus, Basis of Accounting and Financial Statement Presentation - Continued

The City reports the following major proprietary funds:

The *Water and Sewer Funds* account for the provision of water and sewer services to the residents of the City, and some residents of the County. All activities necessary to provide such services are accounted for in the fund, including, but not limited to, production, maintenance, financing and related debt service, and billings and collections.

The *Gas Funds* account for the activities related to the provision of gas services to the residents of the City and some residents of the County. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, billing and collections.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are internal balances between the City's restricted and unrestricted assets. Elimination of these balances would distort the assets for the various functions concerned.

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

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

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(1) Summary of Significant Accounting Policies - Continued

(D) Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and money market mutual funds.

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

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair market value of an investment is significantly affected by the impairment of the credit standing of the issuer or by the factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

TexPool is a government investment pool. TexPool was established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The State Comptroller of Public Accounts exercises oversight responsibility for TexPool. TexPool operates in a manner consistent with the Public Funds Investment Act and portions of the SEC's Rule 2a-7 of the Investment Company Act of 1940. Accordingly, TexPool seeks to maintain a stable net asset value of \$1.00 per share. All investments are stated at amortized cost, which usually approximates the fair value of the securities.

2. Receivables and Payables

The City believes that additional details of certain receivable and payable balances in the financial statements are needed to avoid the obscuring of significant components by aggregation. Therefore, disclosures are provided to disaggregate significant balances in note (3)(C).

There are no significant receivables which are not scheduled for collection within one year of year end.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(1) Summary of Significant Accounting Policies - Continued

(D) Assets, Liabilities and Net Assets or Equity - Continued

2. Receivables and Payables - Continued

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The trade accounts receivable allowance for uncollectibles is based on an aging of past due accounts and historical collections. The property tax receivable allowance is equal to 75% of outstanding taxes for the General Fund at September 30, 2016.

Property taxes are levied by October 1, and are due on receipt of the tax bill and are delinquent if not paid by February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed. The City has entered into a contract with Tyler County Tax Assessor-Collector for the billing and collection of City property taxes.

The City is permitted by the Local Government Code to levy taxes up to \$1.50 per \$100 of assessed valuation for general governmental services, including the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental services and the payment of principal and interest on long-term debt for the year ended September 30, 2016 was 0.3823 per \$100 of assessed valuation. The total tax levy for fiscal year 2016 was \$402,352 and \$382,258 was collected for a current collection rate of 95%.

3. Prepaid Items and Other Assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Restricted assets include cash and investments of the proprietary funds that are legally restricted as to their use. The primary restricted assets are related to debt retirement, meter deposits, and construction activity of the Water and Sewer enterprise funds.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(1) Summary of Significant Accounting Policies - Continued

(D) Assets, Liabilities and Net Assets or Equity - Continued

5. Capital Assets

Capital assets, which include property, plant, equipment, improvements and infrastructure assets (e.g. streets and bridges), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) 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.

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

Buildings, improvements, machinery and equipment and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

ASSETS	YEARS
Buildings	9 - 30
Improvements/infrastructure	10 - 30
Machinery and equipment	5 - 10

6. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide and proprietary fund Statements of Net Position and governmental funds balance sheet) 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 and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

For the year ended September 30, 2016, the City has items that qualify for reporting as deferred outflows of resources and deferred inflows of resources. The City reports the deferred outflows and inflows related to the TMRS net pension liability on the government-wide and proprietary fund statements of net position. Those items are detailed in Note (3)(H). On the governmental funds balance sheet, unavailable revenue is reported as deferred inflows of resources. Those items are detailed in Note (3)(F).

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(1) Summary of Significant Accounting Policies - Continued

(D) Assets, Liabilities and Net Assets or Equity - Continued

7. Compensated Absences

The City accounts for expenditures related to sick pay when such payments are made to employees as amounts do not vest. Employees are allowed to accumulate sick time from year to year but are not paid for unused sick leave upon termination. The City accounts for all material liabilities and expenditures related to vacation pay during the fiscal year in which such benefits accrue. Employees may carry forward at the calendar year end vacation benefits accrued in the previous calendar year. Any additional balance lapses at January 1 of the following calendar year.

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers in and transfers out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(1) Summary of Significant Accounting Policies - Continued

(D) Assets, Liabilities and Net Assets or Equity - Continued

10. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for the other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose.

11. Net Position and Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(1) Summary of Significant Accounting Policies - Continued

(D) Assets, Liabilities, and Net Assets or Equity - Continued

11. Net Position and Fund Balance Flow Assumption - Continued

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

12. 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; injuries to employees; and natural disasters. The City purchases workers' compensation insurance coverage from Deep East Texas Self Insurance Fund, a public entity risk pool, which is self-sustaining through member contributions. The Fund reinsures through commercial companies for claims in excess of \$1,000,000. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves. The City pays an annual premium to the Fund for its workers' compensation insurance coverage. By participating in the pool, the City is not responsible for its own paid claims; consequently, risks associated with workers' compensation are passed to the pool. The members of the Fund have no known premium liabilities for workers' compensation coverage in excess of their contracted annual premiums. However, if the assets of the Fund were to be exhausted, members would be liable for their portion of the Fund's liabilities. This would indicate that members would be contingently liable for the portion of the liability applicable to their political entity. Independent auditors conduct a financial audit at the close of each plan year and as of the most recent audit, the Fund has adequate assets to cover its liabilities.

The City maintains insurance coverage covering liability and property risks of loss with Texas Municipal League Intergovernmental Risk Pool, a self-insurance pool created by its members to provide various coverages to participating members. Excess insurance is purchased to provide additional financial stability to the Pool. Catastrophic losses that exceed the Pool's self-insured retention are secured by excess insurance purchased from domestic A-rated companies. The Pool's retention is \$10,000,000 per occurrence in excess of member deductibles for property and auto physical damage insurance and \$3,000,000 per occurrence for liability insurance. City management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims did not exceed the coverage during each of the past three fiscal years.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(1) Summary of Significant Accounting Policies - Continued

(D) Assets, Liabilities, and Net Assets or Equity - Continued

13. Use of Estimates

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

14. Statement of Cash Flows

For the purpose of the statement of cash flows, the enterprise funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

15. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position (FNP) of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS' FNP 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 benefit terms. Investments are reported at fair value.

(2) Stewardship, Compliance and Accountability

(A) Budgetary Information

The City Administrator annually submits a proposed operating budget for the fiscal year ending September 30. After a public hearing on the proposed budget, the official budget is approved by the City Council in September preceding the applicable fiscal year. Generally, City policy provides for the following:

1. Budget amendments are required prior to the expenditure of funds for positions or activities not included in the original budget.
2. Transfers to a line item which were not in the original budget must be approved.

**CITY OF WOODVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016**

(2) Stewardship, Compliance and Accountability - Continued

(A) Budgetary Information - Continued

The budget was not amended by the City Council during the year ended September 30, 2016. Unexpended appropriations lapse at the end of the fiscal year.

(B) Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38 “Certain Financial Statement Note Disclosures”, violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
Total General Funds expenditures exceeded appropriations by \$209,069.	The City purchased a fire truck for \$315,092 which was not included in the 2016 budget. The City does not anticipate having another large one-time expenditure of this nature in the future.

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

(3) Detailed Notes on All Funds

(A) Cash and Investments

At September 30, 2016, the City’s carrying amount for cash deposits including certificates of deposit was \$5,815,173 and the bank balance was \$5,955,589. The City’s deposits were entirely insured or collateralized with securities held by the pledging financial institution’s agent bank in the City’s name.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(A) Cash and Investments - Continued

The City is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

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

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

During the year ended September 30, 2016, the City invested in certificates of deposit, money market mutual funds, external investment pool and asset backed securities. Fair value at September 30, 2016 was obtained from Coastal Securities and TexPool.

The City's investments at September 30, 2016 were held by the City, Coastal Securities and TexPool and consisted of the following:

INVESTMENTS, INVESTMENT TYPE	AMOUNT	FAIR VALUE	MATURITY
Certificates of Deposit - Non-Negotiable	\$ 985,000	\$ 985,000	1/17 - 10/17
Asset Backed Securities:			
FHLMC Multiclass Mortgage			
Participation Certificates Guaranteed	739	739	2/22
Cash Equivalents:			
Federated - Federated Government			
Reserves Fund	358,308	358,308	
TexPool - Texas Local Government			
Investment Pool	<u>7,177,574</u>	<u>7,177,574</u>	
Total investments	<u>\$ 8,521,621</u>	<u>\$ 8,521,621</u>	

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(A) Cash and Investments - Continued

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific deposit and investment risks at year end and if so, the reporting of certain related disclosures:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy does not limit its investment in asset backed securities, fixed income government issues, or money market mutual funds based on credit ratings. At September 30, 2016, the City's investments in FHLMC Multiclass Mortgage Participation Certificates Guaranteed was unrated. The City's investment in Federated - Federated Government Reserves Fund and TexPool - Texas Local Government Investment Pool were unrated and AAAm, respectively. At September 30, 2016, the City also invested in non-negotiable certificates of deposit.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy does not place a limit on the amount that can be invested in one issuer. More than 5% of the City's investments are in certificates of deposit, Federated and TexPool. Those investments are 12%, 4% and 84%, respectively, of total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy does not limit investment maturities. Maturities are noted in the table above. The weighted average maturity for the City's investment in money market mutual funds was 44 days and 42 days for Federated and TexPool, respectively.

The City's investment in FHLMC Mortgage Participation Certificates Guaranteed is highly sensitive to changes in interest rates. At September 30, 2016, the fair market value of this investment was \$739. The underlying assets are single-family home mortgages which can be paid off early.

(B) Restricted Assets

The restricted assets consist of cash and investments, and are limited to the payment of bonds, meter deposits and construction project costs as follows:

	<u>CASH</u>	<u>INVESTMENTS</u>	<u>TOTAL</u>
Enterprise Funds:			
Meter deposits	\$ 87,635		\$ 87,635
Bond reserve	258,095	\$ 463	258,558
Construction	10		10
	<hr/>		
Total restricted assets	\$ 345,740	\$ 463	\$ 346,203

**CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016**

(3) Detailed Notes on All Funds - Continued

(C) Interfund Balances and Activities

1. Due From and To Other Funds

Due from and to other funds at September 30, 2016, consisted of the following:

DUE FROM	DUE TO	AMOUNT	PURPOSE
Water and Sewer Funds	Water and Sewer Funds	\$ 5	Grant advance
	Total	<u>\$ 5</u>	

2. Transfers From and To Other Funds

Transfers from and to other funds during the year ended September 30, 2016, consisted of the following:

TRANSFER FROM	TRANSFER TO	AMOUNT	PURPOSE
General Funds	Sanitation Fund	\$ 5	Reimbursement
Sanitation Fund	Sanitation Fund	126,647	Interfund
General Funds	Water and Sewer Funds	5	Reimbursement
Water and Sewer Funds	Water and Sewer Funds	2,165,557	Interfund
General Funds	Gas Fund	4	Reimbursement
Gas Fund	Gas Fund	<u>207,843</u>	Interfund
	Total	<u>\$ 2,500,061</u>	

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(D) Capital Assets

Capital asset activity for the year ended September 30, 2016 is as follows:

	BALANCE OCTOBER 1, 2015	ADDITIONS	RETIREMENTS	BALANCE SEPTEMBER 30, 2016
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 264,159			\$ 264,159
Construction in progress	19,000	\$ 118,175	\$ (137,175)	
Total capital assets not being depreciated	<u>283,159</u>	<u>118,175</u>	<u>(137,175)</u>	<u>264,159</u>
Depreciable assets:				
Buildings	794,231			794,231
Improvements	2,910,380	137,175		3,047,555
Machinery and equipment	<u>1,804,950</u>	<u>339,599</u>		<u>2,144,549</u>
Total depreciable assets	5,509,561	476,774		5,986,335
Less accumulated depreciation	<u>(4,799,457)</u>	<u>(119,411)</u>		<u>(4,918,868)</u>
Total capital assets being depreciated, net	<u>710,104</u>	<u>357,363</u>		<u>1,067,467</u>
Governmental activities capital assets, net	<u>\$ 993,263</u>	<u>\$ 475,538</u>	<u>\$ (137,175)</u>	<u>\$ 1,331,626</u>

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(D) Capital Assets - Continued

	BALANCE OCTOBER 1, 2015	ADDITIONS	RETIREMENTS	BALANCE SEPTEMBER 30, 2016
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 37,184			\$ 37,184
Construction in progress	1,149,681	\$ 545,760		1,695,441
Total capital assets not being depreciated	<u>1,186,865</u>	<u>545,760</u>		<u>1,732,625</u>
Depreciable assets:				
Improvements	19,495,823	28,007		19,523,830
Machinery and equipment	444,577			444,577
Total depreciable assets	19,940,400	28,007		19,968,407
Less accumulated depreciation	<u>(13,667,499)</u>	<u>(529,947)</u>		<u>(14,197,446)</u>
Total capital assets being depreciated, net	<u>6,272,901</u>	<u>(501,940)</u>		<u>5,770,961</u>
Business-type activities capital assets, net	<u>\$ 7,459,766</u>	<u>\$ 43,820</u>		<u>\$ 7,503,586</u>

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

Governmental activities:	
General government	\$ 19,022
Public safety	59,025
Highways and streets	18,174
Sanitation	21,255
Culture and recreation	<u>1,935</u>
Total governmental activities	<u>\$ 119,411</u>
Business-type activities:	
Water and Sewer funds	\$ 474,695
Gas funds	<u>55,252</u>
Total business-type activities	<u>\$ 529,947</u>

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(E) Long-term Liabilities

1. General Obligation Bonds Payable

\$2,110,000 Series 2015 General Obligation Refunding Bonds due in annual installments of \$85,000 to \$350,000 through August 1, 2030; interest at 0.55% to 3.15%.

\$ 1,935,000

Total general obligation bonds payable

\$ 1,935,000

The principal and interest requirements for general obligation bonds are as follows:

YEARS ENDING SEPTEMBER 30,	BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL
2017	\$ 95,000	\$ 62,400	\$ 157,400
2018	110,000	58,600	168,600
2019	115,000	54,200	169,200
2020	120,000	49,600	169,600
2021	125,000	46,000	171,000
2022 - 2026	700,000	175,112	875,112
2027 - 2030	670,000	57,275	727,275
Total	<u>\$ 1,935,000</u>	<u>\$ 503,187</u>	<u>\$ 2,438,187</u>

2. Capital Leases

Commitments under capitalized lease agreements for equipment provide for minimum future lease payments as of September 30, 2016, as follows:

For The Year Ending September 30,	GOVERNMENTAL	BUSINESS-TYPE	TOTAL
	ACTIVITIES	ACTIVITIES	
2017	\$ 67,945	\$ 157,477	\$ 225,422
2018	67,945	157,477	225,422
2019	67,945	157,477	225,422
2020	67,945	157,477	225,422
2021		157,477	157,477
2022-2026		787,385	787,385
2027		157,477	157,477
Total minimum lease payments	271,780	1,732,247	2,004,027
Less amount representing interest	<u>(19,126)</u>	<u>(306,854)</u>	<u>(325,980)</u>
Present value of minimum lease payments	<u>\$ 252,654</u>	<u>\$ 1,425,393</u>	<u>\$ 1,678,047</u>

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(E) Long-term Liabilities - Continued

2. Capital Leases - Continued

The interest rate on capital leases for governmental activities was 2.98% and business-type activities was 3.39%. For governmental activities, assets acquired by capital lease consist of machinery and equipment of \$315,092. For business-type activities, assets acquired by capital leases consist of improvements of \$1,856,317. The capital leases are payable from future revenues in the General Fund for governmental activities and the Water and Sewer Funds and Gas Funds.

Interest expense on capital leases for governmental activities was \$8,226, and \$51,585 for business-type activities.

3. Changes in Long-term Liabilities

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Governmental activities					
Capital leases payable	\$ 314,985		\$ 62,331	\$ 252,654	\$ 60,406
Compensated absences	52,597	\$ 62,606	52,597	62,606	62,606
Net OPEB obligation	853,922	124,206		978,128	
Transfer station clean-up costs	4,000			4,000	
Total governmental activities long-term liabilities	\$ 1,225,504	\$ 186,812	\$ 114,928	\$ 1,297,388	\$ 123,012
Business-type activities					
General obligation bonds	\$ 2,140,000		\$ 205,000	\$ 1,935,000	\$ 95,000
General obligation bonds premium	97,134		6,548	90,586	6,548
Capital leases payable	1,530,837		105,444	1,425,393	109,028
Net OPEB obligation	321,369	\$ 9,964		331,333	
Total business-type activities long-term liabilities	\$ 4,089,340	\$ 9,964	\$ 316,992	\$ 3,782,312	\$ 210,576

4. Debt Issuance Costs

In accordance with Statement No. 65 of the Governmental Accounting Standards Board, debt issuance costs, except for any portion related to prepaid issuance costs, should be recognized as an expense in the period incurred.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(F) Deferred Inflows of Resources

Deferred inflows of resources at September 30, 2016 consisted of the following:

	AMOUNT
Governmental Funds:	
Unavailable ad valorem taxes	\$ 22,032
Unavailable fines and forfeitures	53,131
Total deferred inflows of resources	\$ 75,163

(G) Restricted Net Position

Restricted net position reflect amounts that are restricted for retirement of debt as required by various bond covenants and for construction. At September 30, 2016, restricted net position of business-type activities consisted of the following:

	WATER AND SEWER FUNDS		
	RESTRICTED FOR		
	BOND RESERVE	CONSTRUCTION	TOTAL
Restricted assets:			
Cash and cash equivalents	\$ 258,095	\$ 10	\$ 258,105
Investments	463		463
Total restricted assets	258,558	10	258,568
Liabilities payable from restricted assets:			
General obligation bonds - current maturities	95,000		95,000
General obligation bonds premium - current maturities	6,548		6,548
Accrued interest	10,400		10,400
Total liabilities payable from restricted assets	111,948		111,948
Restricted net position September 30, 2016	\$ 146,610	\$ 10	\$ 146,620

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(H) Texas Municipal Retirement System

1. Plan Description

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

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

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 payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. The contribution rate for the employees is 7%, and the City's matching percent is currently 2 to 1, both adopted by the governing body of the City.

**CITY OF WOODVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2016**

(3) Detailed Notes on All Funds - Continued

(H) Texas Municipal Retirement System - Continued

2. Benefits Provided - Continued

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	15
Active employees	33
Total employees covered by benefit terms	60

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.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.66% and 15.62% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$247,269, and were equal to the required contributions.

4. Net Pension Liability

The City's net pension liability (NPL) was measured as of December 31, 2015, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(H) Texas Municipal Retirement System - Continued

4. Net Pension Liability - Continued

Actuarial assumptions

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

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the TMRS Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

**CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016**

(3) Detailed Notes on All Funds - Continued

(H) Texas Municipal Retirement System - Continued

4. Net Pension Liability - Continued

Actuarial assumptions - Continued

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

ASSET CLASS	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN (ARITHMETIC)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate

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

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(H) Texas Municipal Retirement System - Continued

4. Net Pension Liability - Continued

Changes in the Net Pension Liability

The following table shows the changes in total pension liability, plan fiduciary net position and net pension liability for the period between the measurement dates.

	INCREASE (DECREASE)		
	TOTAL PENSION LIABILITY	PLAN FIDUCIARY NET POSITION	NET PENSION LIABILITY
	(a)	(b)	(a) - (b)
Balance at December 31, 2014	\$ 6,225,816	\$ 5,257,806	\$ 968,010
Changes for the year:			
Service cost	219,594		219,594
Interest	437,111		437,111
Change of benefit terms			
Difference between expected and actual experience	84,726		84,726
Changes of assumptions	13,046		13,046
Contributions - employer		222,004	(222,004)
Contributions - employee		99,235	(99,235)
Net investment income		7,755	(7,755)
Benefit payments, including refunds of employee contributions	(182,350)	(182,350)	
Administrative expense		(4,726)	4,726
Other changes		(233)	233
Net changes	572,127	141,685	430,442
Balance at December 31, 2015	\$ 6,797,943	\$ 5,399,491	\$ 1,398,452

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(H) Texas Municipal Retirement System - Continued

4. Net Pension Liability - Continued

Sensitivity of the net pension liability to changes in the discount rate

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

	1% DECREASE IN DISCOUNT RATE (5.75%)	DISCOUNT RATE (6.75%)	1% INCREASE IN DISCOUNT RATE (7.75%)
City's net pension liability	\$ 2,462,730	\$ 1,398,452	\$ 535,714

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.

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

For the year ended September 30, 2016, the City recognized pension expense of \$310,669.

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

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual economic experience	\$ 98,508	
Changes in actuarial assumptions	10,305	
Difference between projected and actual investment earnings	325,402	
Contributions subsequent to the measurement date	182,622	
Total	\$ 616,837	

**CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016**

(3) Detailed Notes on All Funds - Continued

(H) Texas Municipal Retirement System - Continued

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

The City reported \$182,622 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>PLAN YEAR ENDED DECEMBER 31:</u>	
2016	\$ 116,286
2017	116,286
2018	113,976
2019	<u>87,667</u>
Total	<u>\$ 434,215</u>

(I) Other Postemployment Benefits (OPEB)

1. Postemployment Health Care Benefits

By ordinance enacted by the City Council, the City has elected to provide health benefits coverage for eligible retirees from the City through the Texas Municipal League Intergovernmental Employee Benefits Pool (TML IEBP). The TML IEBP is a health risk pool established pursuant to Texas Local Government Code Chapter 172, Texas Government Code Chapter 791, and the Texas Trust Code to provide health benefits coverage for employees and retirees and dependents of employees and retirees, of Texas political subdivisions under an interlocal agreement. Benefit provisions are established and may be amended by the City as authorized by the local ordinance. The City contributes the premiums for health insurance for retirees. At September 30, 2016, there were 2 retirees receiving the postemployment health care benefits. Effective March 12, 2012, the ordinance to provide retiree health insurance benefits was repealed, affecting only future employees.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(I) Other Postemployment Benefits (OPEB) - Continued

a. Funding policy

The contribution requirements of the City are established by ordinance and may be amended by the City Council. The required contribution for the City's share is 195% of the active employee contribution for as long as TML IEBP offers this rate structure for retiree medical coverage.

b. Annual OPEB cost and Net OPEB obligation

The City has elected to calculate the annual required contribution of the City (ARC) and related information using the Alternative Measurement Method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the City's annual OPEB cost, the amount actually contributed, and the changes in the City's net OPEB obligation for the fiscal year ended September 30, 2016 were as follows:

Annual required contribution	\$ 325,614
Interest on net OPEB obligation	18,199
Adjustment to annual required contribution	<u>(23,760)</u>
Annual OPEB cost	320,053
Contribution made	<u>185,883</u>
Increase in net OPEB obligation	134,170
Net OPEB obligation, beginning of year	<u>1,175,291</u>
Net OPEB obligation, end of year	<u><u>\$ 1,309,461</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for fiscal years 2016, 2015 and 2014 were as follows:

YEAR ENDED	ANNUAL OPEB COST	AMOUNT CONTRIBUTED	PERCENTAGE CONTRIBUTED	NET OPEB OBLIGATION
9/30/16	\$ 325,614	\$ 185,883	57%	\$ 1,309,461
9/30/15	313,761	154,903	49%	1,175,291
9/30/14	309,026	63,452	21%	1,016,433

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(I) Other Postemployment Benefits (OPEB) - Continued

c. Funded Status and Funding Progress

As of September 30, 2014, the most recent actuarial valuation date the plan assets were \$0, the actuarial accrued liability for benefits was \$2,191,978, the total unfunded actuarial liability is \$2,191,978, and the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) is 0%. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,223,623, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 179%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

d. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 30, 2014 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.50% discount rate, and a general price inflation of 3.00%. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at September 30, 2014 was 30 years. As authorized by GASB Statement No. 45, the Alternative Measurement Method with its simplifications of certain assumptions was employed in measuring actuarial accrued liabilities and the ARC.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(I) Other Postemployment Benefits (OPEB) - Continued

2. Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) know 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 contributions to the TMRS SDBF for the years ended 2016, 2015 and 2014 were \$3,281, \$2,822 and \$2,000, respectively, which equaled the required contributions each year.

(K) Commitments

1. Construction Commitments

The City had remaining commitments on its uncompleted construction contracts as follows:

GLO Ike 2.2 New Water Well and Related Improvements:	
Holly Water Wells	\$ 23,470
Duplichain Contractors, LLP	63,903
Pine Street Water Plant Project:	
Horton Excavating, LLC	<u>1,281,675</u>
Total	<u><u>\$ 1,369,048</u></u>

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(K) Commitments - Continued

2. Letter of Credit

The Texas Commission on Environmental Quality requires the City to obtain a letter of credit for the purposes of funding the clean-up of the City's transfer station in the event that the City is unable to cover these costs. The City entered into a letter of credit dated August 24, 2016 for \$5,000 with Citizens State Bank, with an interest rate of 7.0% that matures on August 24, 2017. As of the date of this report, there have been no draws against the letter of credit.

3. Lease Commitment

The City accounted for non-cancelable lease agreements for copiers and a postage machine as an operating lease. Future minimum lease payments as of September 30, 2016 are as follows:

<u>YEAR ENDED SEPTEMBER 30</u>	
2017	<u>\$ 1,588</u>
Total	<u><u>\$ 1,588</u></u>

Rental expenditures for the City's copier and postage machine leases totaled \$4,808 and \$1,055, respectively.

4. Contingencies

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 has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility 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.

5. Litigation

No reportable litigation was pending against the City at September 30, 2016.

CITY OF WOODVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2016

(3) Detailed Notes on All Funds - Continued

(L) Water Procurement and Supply Agreement

The City has entered into a water procurement and supply agreement with East Texas Electric Cooperative (ETEC) dated November 15, 2010. The City agreed to make available to ETEC all of its treated effluent from the City's waste water treatment plant up to one million gallons per day and a right of first refusal for amounts in excess of one million gallons per day. In consideration, ETEC agreed to pay up to a maximum of \$2,659,478 for the construction of a new groundwater well in the vicinity of the Pine Street elevated tower for the City subject to the terms of the agreement. ETEC will use the treated effluent water in the operation of its biomass-fired electrical generating facility located two miles south of Woodville, Texas. The term of the agreement is for 30 years. The project has been delayed from the estimated completion dates in Schedule 1 of the water procurement and supply agreement.

As of September 30, 2016, the City has spent \$1,074,470 on the new ground water well construction project and received \$1,054,648 from ETEC for reimbursement to date. During the year ended September 30, 2016, the City recognized revenue of \$63,197 relating to the water procurement and supply agreement in other nonoperating revenues of the Water and Sewer Funds. At September 30, 2016, the amount of unearned revenue related to this agreement was \$869,643.

(M) Related Parties

The City purchases fuel and oil from Gardner Oil, which is owned by Councilman Herbert Branch's son. Payments made to Gardner Oil in fiscal year 2016 totaled \$61,826. At September 30, 2016, the City owed Gardner Oil \$5,384.

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REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

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CITY OF WOODVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
Revenues				
Ad valorem taxes	\$ 405,000	\$ 405,000	\$ 422,203	\$ 17,203
Sales taxes	1,090,000	1,090,000	1,014,872	(75,128)
Other taxes	187,000	187,000	183,001	(3,999)
Licenses and permits	25,000	25,000	32,787	7,787
Fines and forfeitures	176,500	176,500	197,729	21,229
Intergovernmental	7,500	7,500	12,088	4,588
Investment earnings	6,200	6,200	8,552	2,352
Other revenues	5,000	5,000	17,199	12,199
Total revenues	1,902,200	1,902,200	1,888,431	(13,769)
Expenditures				
Current:				
General government	458,825	458,825	443,153	15,672
Public safety	1,069,775	1,069,775	1,375,353	(305,578)
Highways and streets	498,475	498,475	423,505	74,970
Culture and recreation	50,750	50,750	45,027	5,723
Debt Service:				
Principal	62,331	62,331	62,331	
Interest and fiscal changes	5,669	5,669	5,525	144
Total expenditures	2,145,825	2,145,825	2,354,894	(209,069)
Excess (deficiency) of revenues over expenditures	(243,625)	(243,625)	(466,463)	(222,838)
Other Financing Sources (Uses)				
Transfers in			14	14
Total other financing sources (uses)			14	14
Net change in fund balances	(243,625)	(243,625)	(466,449)	(222,824)
Fund balances, beginning of year	3,545,447	3,545,447	3,545,447	
Fund balances, end of year	<u>\$ 3,301,822</u>	<u>\$ 3,301,822</u>	<u>\$ 3,078,998</u>	<u>\$ (222,824)</u>

See accompanying independent auditor's report on required supplementary information.

CITY OF WOODVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
SANITATION FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
Revenues				
Charges for services	\$ 500,000	\$ 500,000	\$ 510,368	\$ 10,368
Investment earnings	1,000	1,000	2,144	1,144
Other revenues	275	275	350	75
Total revenues	501,275	501,275	512,862	11,587
Expenditures				
Current:				
Sanitation	634,150	634,150	495,204	138,946
Total expenditures	634,150	634,150	495,204	138,946
Excess (deficiency) of revenues over expenditures	(132,875)	(132,875)	17,658	150,533
Other Financing Sources (Uses)				
Transfers in			126,647	126,647
Transfers out			(126,652)	(126,652)
Total other financing sources (uses)			(5)	(5)
Net change in fund balances	(132,875)	(132,875)	17,653	150,528
Fund balances, beginning of year	906,778	906,778	906,778	
Fund balances, end of year	<u>\$ 773,903</u>	<u>\$ 773,903</u>	<u>\$ 924,431</u>	<u>\$ 150,528</u>

See accompanying independent auditor's report on required supplementary information.

CITY OF WOODVILLE, TEXAS
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH INSURANCE PLAN
SEPTEMBER 30, 2016

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY (AAL) PROJECTED UNIT CREDIT	UNFUNDED AAL (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
9/30/14		\$ 2,191,978	\$ 2,191,978	0.0%	\$ 1,223,623	179.0%
9/30/11		1,250,849	1,250,849	0.0%	1,102,204	113.0%

See accompanying independent auditor's report on required supplementary information.

CITY OF WOODVILLE, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 219,594	\$ 192,039
Interest (on the total pension liability)	437,111	402,566
Changes of benefit terms		
Difference between expected and actual experience	84,726	54,176
Change of assumptions	13,046	
Benefit payments, including refunds of employee contributions	<u>(182,350)</u>	<u>(155,771)</u>
Net change in total pension liability	572,127	493,010
Total pension liability - beginning	<u>6,225,816</u>	<u>5,732,806</u>
Total pension liability - ending (a)	<u>\$ 6,797,943</u>	<u>\$ 6,225,816</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 222,004	\$ 202,798
Contributions - employee	99,235	91,704
Net investment income	7,755	277,201
Benefit payments, including refunds of employee contributions	(182,350)	(155,771)
Administrative expenses	(4,726)	(2,894)
Other	<u>(233)</u>	<u>(238)</u>
Net change in plan fiduciary net position	141,685	412,800
Plan fiduciary net position - beginning	<u>5,257,806</u>	<u>4,845,006</u>
Plan fiduciary net position - ending (b)	<u>\$ 5,399,491</u>	<u>\$ 5,257,806</u>
Net pension liability - ending (a) - (b)	<u>\$ 1,398,452</u>	<u>\$ 968,010</u>
Plan fiduciary net position as a percentage of total pension liability	79.43%	84.45%
Covered employee payroll	\$ 1,417,648	\$ 1,310,064
Net pension liability as a percentage of covered employee payroll	98.65%	73.89%

The amounts presented for each fiscal year were determined as of the measurement date which is December 31 of the prior year.

Note: Only two years of data is presented in accordance with GASB No. 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

See accompanying independent auditor's report on required supplementary information.

**CITY OF WOODVILLE, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS**

	2016	2015
Actuarially determined contribution	\$ 247,269	\$ 214,479
Contributions in relation to the actuarially determined contribution	247,269	214,479
Contribution deficiency (excess)		
Covered employee payroll	\$ 1,581,971	\$ 1,373,839
Contributions as a percentage of covered employee payroll	15.63%	15.61%

Note: GASB 68, Paragraph 46 requires that the data in this schedule be presented as of the City’s current fiscal year as opposed to the time period covered by the measurement date of January 1 - December 31.

Note: Only two years of data is presented in accordance with GASB No. 68, paragraph 138. “The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement.”

See accompanying independent auditor’s report on required supplementary information.

CITY OF WOODVILLE, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2016

(1) Budgetary Information

The City Administrator annually submits a proposed operating budget for the fiscal year ending September 30. After a public hearing on the proposed budget, the official budget is approved by the City Council in September preceding the applicable fiscal year. Generally, City policy provides for the following:

1. Budget amendments are required prior to the expenditure of funds for positions or activities not included in the original budget.
2. Transfers to a line item which were not in the original budget must be approved.

The budget was not amended by the City Council during the year ended September 30, 2016. Unexpended appropriations lapse at the end of the fiscal year.

(2) Texas Municipal Retirement System

Valuation Date

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	30 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information

There were no benefit changes during the year.

See accompanying independent auditor's report on required supplementary information.

**INDIVIDUAL FUND STATEMENTS AND OTHER
SUPPLEMENTARY INFORMATION**

ENTERPRISE FUNDS

Water and Sewer Funds- These funds are used to account for the provision of water and sewer services to the residents of the City and some residents of the County. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, production, maintenance, financing and related debt service, and billing and collections.

Gas Funds- These funds are used to account for the provision of gas services to the residents of the City and some residents of the County. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, billing and collections.

WATER AND SEWER ENTERPRISE FUNDS

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**CITY OF WOODVILLE, TEXAS
COMPARATIVE STATEMENTS OF NET POSITION
WATER AND SEWER ENTERPRISE FUNDS**

	SEPTEMBER 30,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,821,056	\$ 5,993,591
Investments	495,000	500,000
Receivables:		
Accounts	194,137	200,015
Intergovernmental	82,432	103,908
Other	48,254	10,908
Allowance for uncollectibles	(3,444)	(3,636)
Due from other funds	5	5
Total current assets	7,637,440	6,804,791
Noncurrent assets:		
Restricted assets:		
Restricted cash and cash equivalents	300,351	465,509
Restricted investments	463	824
Total restricted assets	300,814	466,333
Capital assets (net of accumulated depreciation)	6,568,885	6,469,813
Total noncurrent assets	6,869,699	6,936,146
Total assets	14,507,139	13,740,937
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	97,032	36,760
Total deferred outflows of resources	97,032	36,760
LIABILITIES		
Current liabilities:		
Accounts payable	162,416	160,685
Accrued interest	4,037	4,336
Other liabilities	11,738	17,694
Due to other funds	5	5
Unearned revenue	869,643	923,410
Capital leases - current	72,685	70,296
Total current liabilities	1,120,524	1,176,426

See accompanying independent auditor's report on other financial information.

**CITY OF WOODVILLE, TEXAS
COMPARATIVE STATEMENTS OF NET POSITION
WATER AND SEWER ENTERPRISE FUNDS - CONTINUED**

	SEPTEMBER 30,	
	2016	2015
LIABILITIES - CONTINUED		
Current liabilities payable from restricted assets:		
General obligation bonds - current	101,548	211,548
Accrued interest	10,400	11,307
Customer meter deposits	53,637	51,832
	165,585	274,687
 Noncurrent liabilities:		
General obligation bonds - long-term	1,924,038	2,025,586
Capital leases - long-term	877,577	950,262
Net OPEB obligation	234,116	220,367
Net pension liability	204,798	135,927
	3,240,529	3,332,142
 Total liabilities	4,526,638	4,783,255
 NET POSITION		
Net investment in capital assets	3,593,037	3,212,121
Restricted for retirement of debt	146,610	201,215
Restricted for construction	10	57
Unrestricted	6,337,876	5,581,049
	\$ 10,077,533	\$ 8,994,442
 Total net position	\$ 10,077,533	\$ 8,994,442

See accompanying independent auditor's report on other financial information.

CITY OF WOODVILLE, TEXAS
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
WATER AND SEWER ENTERPRISE FUNDS

	FOR THE YEAR ENDED	
	SEPTEMBER 30,	
	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Charges for services	\$ 1,802,962	\$ 1,760,164
Operating Expenses:		
Personnel services	372,731	318,028
Contractual services	256,450	263,631
Materials and supplies	123,803	122,373
Depreciation	474,695	491,127
Repairs and maintenance	85,922	51,776
Bad debts	1,514	1,514
Other	1,200	1,200
Total operating expenses	<u>1,316,315</u>	<u>1,249,649</u>
Operating income	<u>486,647</u>	<u>510,515</u>
Nonoperating Revenues (Expenses):		
Investment earnings	17,095	4,987
Other revenues	158,116	131,744
Interest and fiscal charges	<u>(95,825)</u>	<u>(103,252)</u>
Total nonoperating revenues (expenses)	<u>79,386</u>	<u>33,479</u>
Income before contributions and transfers	<u>566,033</u>	<u>543,994</u>
Contributions and Transfers:		
Capital contributions	517,063	106,200
Transfers in	2,165,557	
Transfers out	<u>(2,165,562)</u>	
Total contributions and transfers	<u>517,058</u>	<u>106,200</u>
Change in net position	<u>1,083,091</u>	<u>650,194</u>
Net position, beginning of year	8,994,442	8,448,442
Cumulative effect of change in accounting principle		<u>(104,194)</u>
Net position, beginning of year, as restated	<u>8,994,442</u>	<u>8,344,248</u>
Net position, end of year	<u>\$ 10,077,533</u>	<u>\$ 8,994,442</u>

See accompanying independent auditor's report on other financial information.

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CITY OF WOODVILLE, TEXAS
COMPARATIVE STATEMENTS OF CASH FLOWS
WATER AND SEWER ENTERPRISE FUNDS

	FOR THE YEAR ENDED	
	SEPTEMBER 30,	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,771,593	\$ 1,758,472
Payments to suppliers	(465,644)	(462,911)
Payments to employees	(356,339)	(289,618)
	<u>949,610</u>	<u>1,005,943</u>
Cash flows from noncapital financing activities:		
Other nonoperating revenues	104,349	922,183
Transfers in	2,165,557	
Transfers out	(2,165,562)	
	<u>104,344</u>	<u>922,183</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(573,767)	(953,411)
Principal payments on long-term debt	(280,296)	(277,985)
Interest and fiscal charges on long-term debt	(98,579)	(105,206)
Capital grants received	538,539	56,327
	<u>(414,103)</u>	<u>(1,280,275)</u>
Cash flows from investing activities:		
Purchase of investments	(495,000)	(500,000)
Investment maturities	500,348	500,413
Investment earnings	17,108	5,004
	<u>22,456</u>	<u>5,417</u>
Net increase in cash and cash equivalents	662,307	653,268
Cash and cash equivalents, beginning of year	<u>6,459,100</u>	<u>5,805,832</u>
Cash and cash equivalents, end of year	<u>\$ 7,121,407</u>	<u>\$ 6,459,100</u>

See accompanying independent auditor's report on other financial information.

CITY OF WOODVILLE, TEXAS
COMPARATIVE STATEMENTS OF CASH FLOWS
WATER AND SEWER ENTERPRISE FUNDS - CONTINUED

	FOR THE YEAR ENDED	
	SEPTEMBER 30,	
	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 486,647	\$ 510,515
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	474,695	491,127
Decrease in accounts receivable - net	5,686	9,645
(Increase) in other receivables	(37,346)	(10,908)
(Increase) in deferred outflows related to pensions	(60,272)	(16,662)
Increase (decrease) in accounts payable	1,731	(23,931)
Increase (decrease) in other liabilities	(5,956)	3,651
Increase in customer meter deposits	1,805	1,085
Increase in net OPEB obligation	13,749	29,786
Increase in net pension liability	68,871	11,635
Total adjustments	462,963	495,428
Net cash provided by operating activities	\$ 949,610	\$ 1,005,943

See accompanying independent auditor's report on other financial information.

GAS ENTERPRISE FUNDS

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**CITY OF WOODVILLE, TEXAS
COMPARATIVE STATEMENTS OF NET POSITION
GAS ENTERPRISE FUNDS**

	SEPTEMBER 30,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,463,152	\$ 1,398,896
Investments	245,276	250,538
Receivables:		
Accounts	94,165	98,493
Allowance for uncollectibles	(1,665)	(1,742)
Total current assets	1,800,928	1,746,185
Noncurrent assets:		
Restricted assets:		
Restricted cash and cash equivalents	45,389	45,336
Total restricted assets	45,389	45,336
Capital assets (net of accumulated depreciation)	934,701	989,953
Total noncurrent assets	980,090	1,035,289
Total assets	2,781,018	2,781,474
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	54,955	21,516
Total deferred outflows of resources	54,955	21,516
LIABILITIES		
Current liabilities:		
Accounts payable	47,187	46,225
Accrued interest	2,019	2,168
Other liabilities	13,595	16,136
Capital leases - current	36,343	35,148
Total current liabilities	99,144	99,677

See accompanying independent auditor's report on other financial information.

**CITY OF WOODVILLE, TEXAS
COMPARATIVE STATEMENTS OF NET POSITION
GAS ENTERPRISE FUNDS**

	SEPTEMBER 30,	
	2016	2015
LIABILITIES - CONTINUED		
Current liabilities payable from restricted assets:		
Customer meter deposits	111,129	108,859
Total current liabilities payable from restricted assets	111,129	108,859
Noncurrent liabilities:		
Capital leases - long-term	438,788	475,131
Net OPEB obligation	97,217	101,002
Net pension liability	126,569	87,829
Total noncurrent liabilities	662,574	663,962
Total liabilities	872,847	872,498
NET POSITION		
Net investment in capital assets	459,570	479,674
Unrestricted	1,503,556	1,450,818
Total net position	\$ 1,963,126	\$ 1,930,492

See accompanying independent auditor's report on other financial information.

CITY OF WOODVILLE, TEXAS
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
GAS ENTERPRISE FUNDS

	FOR THE YEAR ENDED	
	SEPTEMBER 30,	
	2016	2015
Operating Revenues:		
Charges for services	\$ 874,944	\$ 1,148,948
Operating Expenses:		
Personnel services	186,136	175,585
Contractual services	77,063	32,287
Materials and supplies	22,819	37,401
Cost of services	483,020	748,383
Depreciation	55,252	60,184
Repairs and maintenance	5,167	9,372
Bad debts	318	318
Total operating expenses	829,775	1,063,530
Operating income	45,169	85,418
Nonoperating Revenues (Expenses):		
Investment earnings	3,844	2,782
Gain on sale of capital assets		3,461
Other revenues	820	2,596
Interest and fiscal charges	(17,195)	(18,356)
Total nonoperating revenues (expenses)	(12,531)	(9,517)
Income before contributions and transfers	32,638	75,901
Contributions and Transfers:		
Transfers in	207,843	
Transfers out	(207,847)	
Total contributions and transfers	(4)	
Change in net position	32,634	75,901
Net position, beginning of year	1,930,492	1,921,994
Cumulative effect of change in accounting principle		(67,403)
Net position, beginning of year, as restated	1,930,492	1,854,591
Net position, end of year	\$ 1,963,126	\$ 1,930,492

See accompanying independent auditor's report on other financial information.

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**CITY OF WOODVILLE, TEXAS
COMPARATIVE STATEMENTS OF CASH FLOWS
GAS ENTERPRISE FUNDS**

	FOR THE YEAR ENDED SEPTEMBER 30,	
	2016	2015
Cash flows from operating activities:		
Receipts from customers and users	\$ 880,883	\$ 1,167,873
Payments to suppliers	(587,107)	(875,674)
Payments to employees	(186,897)	(161,083)
	106,879	131,116
Cash flows from noncapital financing activities:		
Other nonoperating revenues	820	2,596
Transfers in	207,843	
Transfers out	(207,847)	
	816	2,596
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets		3,461
Principal payments on long-term debt	(35,148)	(33,993)
Interest and fiscal charges on long-term debt	(17,344)	(18,500)
	(52,492)	(49,032)
Cash flows from investing activities:		
Purchase of investments	(245,000)	(250,000)
Investment maturities	250,253	250,300
Investment earnings	3,853	2,794
	9,106	3,094
Net increase in cash and cash equivalents	64,309	87,774
Cash and cash equivalents, beginning of year	1,444,232	1,356,458
Cash and cash equivalents, end of year	\$ 1,508,541	\$ 1,444,232

See accompanying independent auditor's report on other financial information.

**CITY OF WOODVILLE
COMPARATIVE STATEMENTS OF CASH FLOWS
GAS ENTERPRISE FUNDS**

	FOR THE YEAR ENDED	
	SEPTEMBER 30,	
	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 45,169	\$ 85,418
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	55,252	60,184
Decrease in accounts receivable - net	4,251	18,534
(Increase) in deferred outflows related to pensions	(33,439)	(9,017)
Increase (decrease) in accounts payable	962	(48,231)
Increase (decrease) in other liabilities	(2,541)	1,933
Increase in customer meter deposits	2,270	716
Increase (decrease) in net OPEB obligation	(3,785)	13,652
Increase in net pension liability	38,740	7,927
Total adjustments	61,710	45,698
Net cash provided by operating activities	\$ 106,879	\$ 131,116

See accompanying independent auditor's report on other financial information.

CITY OF WOODVILLE, TEXAS
SCHEDULE OF GRANT REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT BLOCK GRANT - GLO 12-593-000-6891
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Federal Award
 Federal Grantor: U.S. Department of Housing and Urban Development
 Pass Through Grantor: Texas General Land Office
 CFDA Number: 14.228
 Contract Number: GLO 12-593-000-6891
 Contract Period: November 26, 2012 to December 31, 2016

	BUDGET	FEDERAL		LOCAL MATCH		TOTAL
		PRIOR YEARS	CURRENT YEAR	PRIOR YEARS	CURRENT YEAR	
Revenues:						
Federal	\$ 752,977	\$ 103,908	\$ 517,063			\$ 620,971
Local match						
Total revenues	<u>752,977</u>		<u>517,063</u>			<u>620,971</u>
Expenditures:						
Federal:						
Water facilities -						
water well/water line	742,069	93,000	517,063			610,063
Acquisition	<u>10,908</u>	<u>10,908</u>				<u>10,908</u>
Total expenditures	<u>752,977</u>	<u>103,908</u>	<u>517,063</u>			<u>620,971</u>
Excess revenues over expenditures						

See independent auditor's report on additional information.

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COMPLIANCE SECTION

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and Members of
the City Council
City of Woodville, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Woodville, Texas (City) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Woodville, Texas' basic financial statements and have issued our report thereon dated February 7, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Woodville, Texas' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* - CONTINUED**

Internal Control Over Financial Reporting - Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Woodville, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ALEXANDER, LANKFORD & HIERS, INC.
Certified Public Accountants

Lufkin, Texas
February 7, 2017